



PENCIL SKETCH FOR TARZAN: COMING SUMMER 1999.



Cover art by Glen Keane, supervising animator for the title character in Disney's 37th feature animated film, *Tarzan*.



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## FINANCIAL HIGHLIGHTS

The Walt Disney Company and Subsidiaries

(In millions of dollars, except per share data)

	1998	1997	1996	CAGR
Revenues	<b>\$22,976</b>	\$22,473	\$18,739	11%
Operating income <sup>(1)</sup>	<b>4,015</b>	4,312	3,333	10%
Net income <sup>(1) (2)</sup>	<b>1,850</b>	1,886	1,534	10%
Diluted earnings per share <sup>(1) (2)</sup>	<b>0.89</b>	0.92	0.83	4%
Cash flow from operations	<b>5,115</b>	5,099	3,707	17%
Stockholders' equity	<b>19,388</b>	17,285	16,086	10%
Book value per share	<b>9.46</b>	8.59	7.96	9%

<sup>(1)</sup>The 1997 amounts exclude the impact of a \$135 million gain on the sale of KCAL and the 1996 amounts exclude the impact of a \$300 million non-cash charge for the SFAS 121 accounting change

<sup>(2)</sup>The 1996 amounts exclude the impact of \$225 million of acquisition-related costs



# LETTER TO SHAREHOLDERS

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To Disney Owners and Fellow Cast Members:

I am looking out the window and can see the seasons change (yes, the seasons do change in Los Angeles – the eucalyptus leaves droop more and the sprinklers go on less often). I am reminded that our rhythms are set by the seasons and that any number of human endeavors are ruled by the calendar. Such as this annual report. Every 12 months we compile it, and every 12 months I sit down to write you this letter.

There's just one problem with this annual exercise: It implies that businesses can be run in neat 12-month chunks of time. Unfortunately, the business cycle has its own seasons, which are not ruled by the orderly and predictable orbit of the earth around the sun. Indeed, at Disney, we live by a 60-month calendar. We set our goals over rolling five-year timelines. In this context, each year is more like a season. Some are sunny and some are overcast, but each is merely a period of passage and not a destination. Our five-year calendars force us to think long-term. They make us devise strategies that add value, not squeeze profits.

But this is an *annual* report, not a quinquennial report. Our fiscal year earnings were roughly the same as they were in

the previous 12 months. This flat performance probably doesn't come as a surprise to you, given the metaphorical way I opened this letter, trying to ease gently into a discussion of what appears to be our twice-a-decade problem.

I'll call it "semi-decadal" because in many ways 1998 reminds me of 1991, a year that also featured languishing earnings. But I believe that there is a more important similarity between 1998 and 1991 ... namely, that both were years of key strategic investments and significant new initiatives.

In 1991, our initiatives included three new hotels at Walt Disney World; Hyperion Books; Discover Magazine; the Disney Vacation Club; Fantasmic! and the CarToon Spin at Disneyland and Muppet 3D at the Disney-MGM Studios.

In 1998, the list of major new initiatives was even longer, with Disney's Animal Kingdom; DisneyQuest; the Disney Cruise Line; ESPNZone; *ESPN-The Magazine*; *Jane* magazine; new Disney Channels in Italy and Spain; Downtown Disney and the All-Star Movies Resort at Walt Disney World; Radio Disney; the ESPN Classic sports channel; Toon Disney on cable; the new Tomorrowland at Disneyland; the refurbishment of Anaheim Stadium; the acquisition of





**Michael D. Eisner**  
Chairman and CEO, The Walt Disney Company

Starwave; the investment in Infoseek and the creation of the Go Network™. In 1998, I also saw the *end* of an initiative begun five years ago and subsequently accomplished in midnight-to-2 a.m. shifts, namely my book, *Work in Progress*. At long last, it is finally done! It turned out to be a book about the challenges of running a creative company, utilizing examples from my personal experience. It did not destroy my marriage, it was reviewed reasonably well, despite some criticism for not being “a kiss and tell,” and it has yet to be read by my three sons – who fortunately have their own lives and have heard enough stories from their father.

As with our 1991 initiatives, our 1998 efforts are all designed to further Disney’s overall corporate mission – to offer quality entertainment that people will seek out. Consider what this really means. About 2,300 years ago, the Greek philosopher Theophrastus said, “Time is the most valuable thing a man can spend.” It still is. At Disney, we are dedicated to creating entertainment of such excellence that people will choose to spend some of their valuable time with us. All of our 1998 initiatives are geared toward this goal. Given their high quality and given the evidence that people all over the world will be enjoying more and more disposable time (a horrible phrase, considering time’s preciousness)

in the years ahead, these investments have the potential to create significant growth down the road. Unfortunately, like all investments that create theoretical opportunities in the future, they cost *real* money right now. Consequently, during the fiscal season that was 1998, they helped drag down our net income. But that’s the short-run story. In the long run (which is the run that really matters), we believe they will enrich our company.

Not only do all of these initiatives represent wonderful ways to spend one’s time, but they also reflect a tremendous range of experience. Some, like Disney’s Animal Kingdom, the new Tomorrowland and the expansion of the Disney Channel, are extensions of established forms of Disney entertainment. Others, like DisneyQuest, the Disney Cruise Line and the Go Network, encompass forms of entertainment that are new to us. They reflect our belief that developments such as regional entertainment, the cruise business and the Internet relate directly to our core business and are opportunities that will help lead us to the future.



The future was very much on our minds this past October, when we held a senior management retreat at my parents' apple orchard in Vermont. Although we were a week late for "cow appreciation day" in Woodstock, we were not too late to cruise Sam's Army and Navy Store (recently renamed Sam's Outfitters for political correctness) or to meet and hike, communicate and get excited and organized about the seasons and years and decade ahead. We pondered the ecological environment and the economic environment, which a few weeks earlier the pundits had proclaimed was teetering on the brink of recession. Lately, they seem to be saying "never mind."

While we didn't find a crystal ball at Sam's Outfitters, we did crystallize a Disney methodology for weathering any economic storms that may lie ahead. That methodology can be stated quite simply: "Put the creative process first and while we're at it, try to make sure not to lose money." At its heart, ours is a creative company, and creativity of all kinds – artistic, financial and administrative – holds the key to prospering as the new century approaches, whatever surprises it may bring with it. By the way, this methodology is nothing new. Throughout its 75-year history, creativity has been the hallmark of our company and has driven its remarkable success.

On October 16, we honored this legacy of creativity during our 75th anniversary celebration. On this occasion, we inducted another 19 people as Disney Legends, including two especially legendary individuals. The first was Virginia Davis, who starred in the Alice Comedies, the very first films produced by the Disney Brothers Cartoon Studio. The second was Roy E. Disney, who is vice chairman of our Board of Directors and chairman of Feature Animation. If it weren't for Roy, the Disney legacy would have ended at its 60th anniversary. It was in 1984 that he provided crucial leadership in fending off corporate raiders intent on breaking the company apart. Roy is also a record-setting international yachtsman, which I mention because, when he's not on the high seas, he continues to be an invaluable rudder and stabilizer for our company. You need look no further than his name to see why Roy understands better than anyone the

essence of Disney ... an essence, I might add, that was remarkably evident in those very first Alice Comedies.

Two individuals who are also legends in their own right are Card Walker and Dick Nunis, who have announced their retirement as members of our Board of Directors, with Dick also stepping down as chairman of Walt Disney Attractions. Between them, these two men have dedicated 103 years to our company! Card first joined Disney in 1938 and ultimately served as chairman and chief executive officer, while Dick started in 1955 and went on to head our Attractions division. They may be retiring, but I will continue to rely on their wisdom and insights about all things Disney.

And, while I'm recognizing legends, I want to mention the Singing Cowboy, Gene Autry, who died this year. He was not only a Hollywood legend and a brilliant businessman, but also a good friend of our company, dating back to the days of Walt, who served on the original board of directors of Gene's Angels baseball team. I am sure Gene is somewhere smiling at the Angels' acquisition of Mo Vaughn, a quality star who completely fits into Gene's Cowboy Code, especially Code #6: "He must help people in distress."

During one of his last public appearances, Gene Autry joins Anaheim Angels manager Terry Collins in celebrating the opening of Edison International Field.





The weekend following our 75th anniversary celebration, we conducted the Disney VoluntEARS Global Celebration of Children. During these two days, nearly 11,000 Disney cast members volunteered in 212 cities in 44 states, five Canadian provinces, 24 countries, on five continents. Our goal was to further celebrate our 75th anniversary by helping 75,000 children around the globe. This was one more way to honor the Disney heritage of making the world a better and happier place.

Toward the end of the year, action was taken in Washington that should help us further protect and build on our heritage. Congress passed and the President signed an extension of the copyright law, assuring that Mickey Mouse's home will continue to be exclusively at The Walt Disney Company.

One important way that we're continuing to make Mickey and his friends feel right at home is a new initiative for 1999, tentatively called *MouseWorks*. We are producing brand new cartoon shorts featuring everyone's favorite mice, ducks and dogs – Mickey, Minnie, Donald, Daisy, Pluto and Goofy (yes, Goofy is a dog). Some of these shorts will initially appear

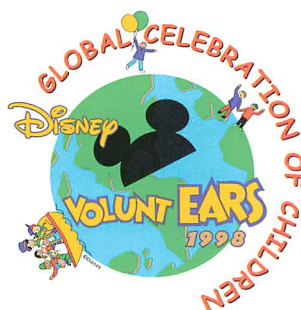
The weekend of October 16, 11,000 Disney cast members volunteered their time in 24 countries to help children around the world during the Disney VoluntEARS Global Celebration of Children.



with Disney theatrical and video releases. After that, they will form the basis of a television series that will appear initially in the United States and eventually around the world. In recent decades, these Disney stars have remained incredibly popular despite the fact they've rarely ventured away from their residences in Toon Town. Now they are going to be put back to work doing what they do best – entertaining their fans on the big and little screen.

One other parallel between 1998 and 1991 was the bad news/good news of our live-action movie business. The bad news is that 1998 was a tough year for us. As in 1991, we succumbed to the overall industry trend of paying more and more for talent in front of and behind the camera. Of course, we had our successes, such as the number one film of the summer, *Armageddon*, and the remake of *The Parent Trap*. We also had some highly regarded films such as *The Horse Whisperer* and *Beloved*. And Miramax enjoyed the commercially and artistically successful *Good Will Hunting*. But, in too many instances, profits did not materialize from the revenues achieved by our films. Stated more bluntly, either the films and marketing cost too much, or the audience rejected our ideas. Whatever the reason, we're glad fiscal '98 is over in this area.

Which brings me to the good news. Fiscal '99 has started off like gangbusters for our movie division. I know this is last year's annual report, but I am not about to wait a year to report on *A Bug's Life*, *Enemy of the State* and *The Waterboy*, which were three of the top four films during Thanksgiving weekend. I go for the good news wherever and whenever I can. And it is good news indeed when the first two months of the new fiscal year bring break-out hits.





In an effort to improve our odds for continued success in the live-action film business, we are implementing a strategy that calls for the making of a higher percentage of Disney-labeled films ... a strategy that, needless to say, could only be undertaken by our studio. Disney continues to be the only brand name in the entertainment industry. For 75 years, it has earned the trust of the public. Under our new strategy, we hope to build on this trust with a renewed emphasis on Disney family films.

Another area that is getting our strategic attention is broadcasting. All three of the once-dominant networks have seen audience erosion, and the ABC network has been no exception. But the fact is that ABC's prime-time ratings receive too much emphasis as a measure of our broadcasting division's performance. The entire ABC network – daytime, prime-time, news and late night – continues to comprise less than 10 percent of broadcasting's operating income. This is a primary reason that we opted, in 1995, to purchase Cap Cities/ABC rather than one of the other networks that was then available. Not only were we getting one of the major broadcast networks, which is still a completely unique entertainment asset in its enormous audience reach, but we were also getting some of the rising brands on the cable spectrum, such as ESPN, A&E, Lifetime and The History Channel, as well as some of the strongest owned-and-operated stations in the country. To be sure, the days of total dominance by just three networks are over. But with our wide range of broadcast assets, which also include the Disney Channel here and abroad, we are well positioned to play a strong role in the ongoing evolution of the incredible medium that is television.

O.K., I have now dutifully stated a rational, mature, restrained and, I hope, intelligent overview of the broadcast and cable landscape. Now, please allow me to succumb to my more native impulses by simply saying, "Watch *Sports Night* on ABC!" It is fantastic and it is one of the building blocks we are putting together to eventually make ABC number one, irrespective of the new competition! (There, now I feel better.)

In much the same way we have invested in cable television, we have also invested in another growing area of home entertainment that is drawing eyes to screens – the Internet. Under the management of our Buena Vista Internet Group, we were already reaping benefits from the Internet, thanks to Disney.com, the web's most-visited entertainment site; ESPN.com, the most-visited sports site, and ABCNews.com, the fastest growing news site. In recognition of the immense opportunity that the Internet poses, we took three important steps this year to move from being a major participant on the Internet to becoming a true leader. First, we purchased Starwave, one of the top Internet technology companies. Then, we sold Starwave to Infoseek in exchange for a 43 percent stake in this popular search engine. With these two partners in place, we announced the creation of the Go Network, which will be launched in the spring and, we believe, be something of a next step in the development of the world wide web. Once Internet users enter the Go Network, they will find a wealth of integrated services just a click away, all of which offer content from units of The Walt Disney Company, plus access to every other destination on the world wide web.

Roy Disney, vice chairman of the board and chairman of Walt Disney Feature Animation, is flanked by Kurt Russell, Hayley Mills and Glynis Johns, as the four Disney Legends put their handprints in cement during the 75th anniversary celebration of the company.





The opportunity posed by the Internet is both very new and very old. As I've expressed before in these letters, I firmly believe that Disney is ruled by the royalty of King Content and Queen Creativity. Serving as their advancing army is Technology. This is as it has always been. Creativity gave birth to the Content we call Mickey Mouse. And, look where Technology has led him – onto movie screens and television screens, videotape and theme park attractions, T-shirts and toys, CD-ROM's and video games. Every one of these technological venues has offered a new way for Mickey to engage audiences and gain fans. Now Mickey is encountering the opportunities of the Internet.

But, beyond Mickey, this new medium is wonderfully suited for the development of *new* characters, and it is on the backs of new characters that our Internet business will grow. These characters can also be coordinated with our parks and consumer products and co-produced with our broadcast and cable entities. For example, Zoog Disney on the Disney Channel has created the new characters that also appear on the Disney.com and the ZOOGDisney.com sites.

Just as the Buena Vista Internet Group is providing a new venue for Disney content *inside* the home, Disney Regional

Entertainment is providing new venues for Disney content *outside* the home. We have developed three lines of business, each of which has an inherent potential for growth. Club Disney came first, offering a richly themed play space for young children and their parents (adults without children may not enter!). Then came the first DisneyQuest, an interactive entertainment zone within one giant 100,000-square-foot building that offers a whole new way for families to enjoy the Disney experience. One month later, we opened the first ESPNZone, a lively extension of the ESPN brand that gives fans a place to talk sports, eat sports, watch sports and play sports. Over the coming years, more Club Disneys, DisneyQuests and ESPNZones will be established in cities across America. If the concepts are successful, as we anticipate, then they should be readily exportable overseas. The closest model for these efforts is the Disney Stores and our new ESPN Stores, which owe their great popularity not just to the merchandise but to the fact that people like being able to step inside a Disney-designed environment close to home. Now we'll be providing three significant new ways for guests to enter the world of Disney and, judging from the early results, the appeal and the potential are great.

It should be emphasized that the new venues of Disney Regional Entertainment are designed to complement the Disney theme park experience, not replace it. Indeed, we suspect they may whet more than a few appetites for a trip to Orlando or Anaheim. Fortunately, lots of trips to Orlando and Anaheim are already being taken. Our Attractions division had a spectacular year in 1998. For the fourth consecutive year, park attendance and hotel occupancy were up across the board, partly because there were more parks to attend and more hotel rooms to occupy. Disney's Animal Kingdom was filled to capacity for much of the summer, and the new Coronado Springs Resort was an instant hit. Disneyland's new Tomorrowland was also a big draw, and the All-Star Movies Resort recently opened to sell-out business.

We plan to build on this success by continuing to improve our parks in little ways and big ways. Among the big ways, there





are the additions of major attractions, such as the GM Test Track, Downtown Disney and the Rock'n' Roller Coaster at Walt Disney World, Disneyland's new Tomorrowland and the Asia section of Disney's Animal Kingdom. And then there are the *really* big ways: the creation of entirely new theme parks. Currently under way are Disney's California Adventure in Anaheim and Tokyo DisneySea in Japan. Until now, Disneyland and Tokyo Disneyland have been wonderful single-day venues that most families visit during one rising and setting of the sun. With the addition of these new adjacent parks, they will be transformed into true resort destinations.

In the fall, I traveled to Japan to participate in the groundbreaking for Tokyo DisneySea. I generally don't get nervous appearing before large groups of people, even in foreign lands ... but participating in a Shinto ceremony, for which I had to memorize the exacting customs of a religious tradition that has been nurtured over thousands of years, did test my ability to maintain my professional aplomb. Also participating in the event were our partners from the Oriental Land Company. OLC is actually paying for the construction and will own the park. Disney will receive licensing and management fees. This will result in a strong cash flow starting with opening day. Oriental Land Company's willingness to make such a huge investment in this new park reflects the Japanese people's underlying confidence in the future, and the enormous potential upside that exists in Japan and throughout the currently depressed economies of Asia.

Following my visit to Japan, I went on to meet with leaders in China and be exposed to more of this extraordinary nation. I saw a number of exotic sights, but there was one recurring sight that, given where I was traveling, seemed especially exotic to me – the golden arches of McDonald's. I am completely confident that the Chinese people love Mickey no less than Big Mac. I plan to have lunch with Jack Greenberg, the CEO of McDonald's, to ask him how they managed to make the fries taste just as good in Shanghai as on Sunset Blvd. As evidenced by the popularity of McDonalds, we could be getting close to the time for a major Disney attraction in the world's most populous nation.

Our efforts in China underscore the growing importance of the international market in general. The coming century will not be the American Century, it will be the World Century. It used to be that in order for a company to be successful, it had to devise strategies that would work in Maine, Montana and Missouri. Now, the list includes all the nations of the world. Outside the United States, we must still remember we are guests, and not just export our American product, but produce locally created entertainment that reflects local cultures as well. This makes our work more challenging, but it also makes it vastly more exciting as we can see possibilities anywhere we spin the globe.

Of course, China already had a markedly favorable impact on our company this year, since it supplied the folktale around which we built our 36th animated film – *Mulan*. *Mulan* just won 10 first place awards presented by the International Animated Film Society. The film's commercial and artistic success was all the more remarkable since it was the first feature to come from our new Florida animation studio. It provided one more example of the incredible ability of our Feature Animation group to marry an emotional story to an

Michael Eisner joins, from left, Toshio Kagami, president of the Oriental Land Company, Masatomo Takahashi, OLC executive director and counselor, and Kazuo Kato, OLC executive managing director, during the Shinto groundbreaking ceremony for the new Tokyo DisneySea theme park.





artistic vision. Would it be too much like a father to dreamingly say nobody does it as well, that no one comes close to this level of work? Probably!

1999 will be a historic year for Walt Disney Feature Animation. For the first time in the 75 years that Disney has been animating movies, we will be releasing three feature-length animated films in a single year – *Tarzan*®, *Toy Story 2* and, to close out the year, *Fantasia 2000*. In addition, from our growing TV Animation group, we have the terrific shows being produced for ABC's *One Saturday Morning*, which has become the top-rated Saturday morning show for kids 2 to 11. Then there's our made-for-video product line, the latest of which, *The Lion King II: Simba's Pride*, is performing exceptionally well. Next year, we will have four made-for-video films, including *Mickey's Once Upon a Christmas*. Another development that may or may not have an impact on our animation business is the digital video disk. I say "may not" because, over time, it may simply replace videotape. Therefore, I will restrain my enthusiasm for the potential of this new format, which of course is difficult for me. In 1998, we began releasing our films onto DVD. We are hopeful that, in the coming decade, this technology will grow to the point

Mickey poses for his 70th birthday portrait. Thanks to copyright extension legislation enacted in Washington, Mickey will be celebrating many more birthdays at the Walt Disney Company.



where we can profitably release more of our animated library titles in this format.

We will be greeting the new decade, the new century and the new millennium with *Fantasia 2000*, a film that hearkens directly to our creative roots even as it leads the way into a new era. *Fantasia 2000* will be part of a year-long millennial celebration that will be centered at Epcot and will include entertainment spectacles, special welcoming ceremonies and exhibits from around the globe. To further memorialize the millennium, we have commissioned two symphonies by the world-renowned composers Michael Torke and Aaron Jay Kernis.

Of course, every CEO in every annual report this year will feel obliged to talk in grand and expansive terms about the millennium. And, at Disney we will be firing off more than our share of fireworks when the calendar turns. But, personally, I think the year 2000 will offer a quiet moment to reflect on the past, present and future of our company (once all the bugs are out of our computers, and I am assured that we are ahead of schedule in this effort). To put it mildly, the little business that Walt and Roy founded 75 years ago grew to have an important and positive impact throughout the 20th century. Now, it is up to all of us, the 120,000 cast members of The Walt Disney Company, to make sure that this heritage is honored and built upon in a new century.

To be sure, the years of the 21st century will include ups and downs, just as did the years of the 20th. But, through all our fiscal seasons, I am confident that, over the long term, Disney will continue to be a leader in offering creative new ways – and creative old ways – for people to spend their most precious possession: their time.

Sincerely,

Michael D. Eisner  
Chairman and CEO  
December 8, 1998



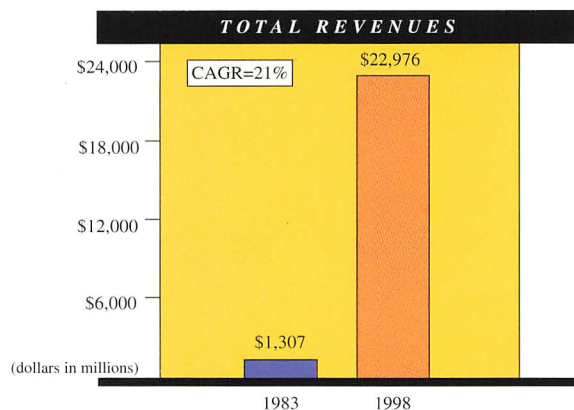
The Walt Disney Company strives to maximize value to its shareholders by leveraging the strength of its brand, character and entertainment franchises through a commitment to creative excellence and guest service coupled with strict financial discipline. The company evaluates its existing businesses and new initiatives based on their ability to contribute to Disney's long-term cash flow and earnings growth and to provide returns that exceed Disney's cost of capital.

1998 was a year that highlighted Disney's commitment to continued value-creating investment in the company's branded attractions, entertainment and consumer products offerings. Creating value through investment in existing businesses and new initiatives has been an ongoing focus for the company since Michael Eisner joined Disney nearly 15 years ago. This year, investment in future growth opportunities was higher than in any previous year.

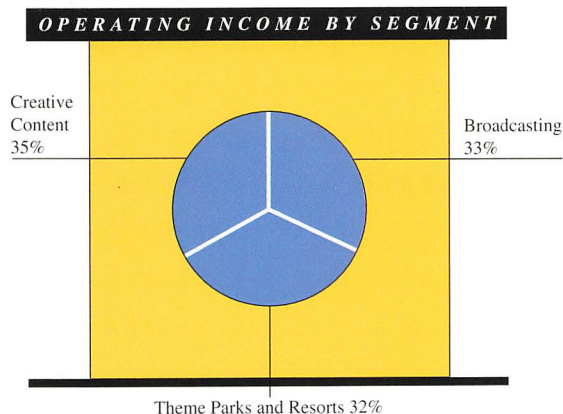
## OVERVIEW

The company delivered record revenues and solid earnings in 1998. Nonetheless, the year presented a number of challenges, including increasing cost pressures in the filmed entertainment and broadcasting businesses and turbulent international market conditions. These challenges led to lower-than-expected earnings growth for the year. As a result, the company has begun and will continue to take steps to reduce costs and investment where appropriate while positioning itself for future growth.

Disney delivered record revenues of just under \$23 billion in fiscal year 1998. Disney's revenues have grown substantially over time, registering average annual growth of 21% over the last 15 years.

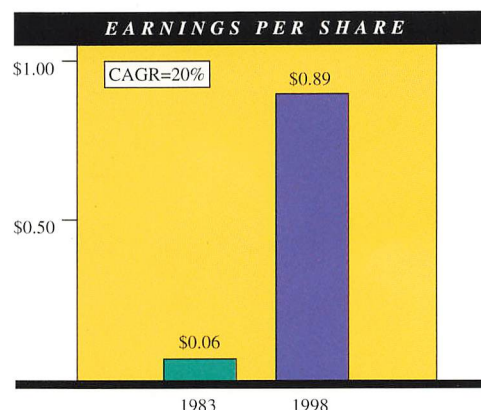


The company generated operating income of \$4 billion in 1998, with contributions in nearly equal measure from Disney's individual business segments. Creative Content generated 35% of the company's total operating income, with 33% coming from Broadcasting and 32% from Theme Parks and Resorts.



With the exception of Theme Parks and Resorts, growth in operating income in 1998 lagged historical trends, due in part to increased external cost pressures from such things as higher costs for key sports programming rights and increased industry-wide live-action film production costs. Difficult international economic conditions also impacted 1998 results.

Net income increased 4% over the prior year's pro forma results to \$1.9 billion in 1998, while diluted earnings per share increased 3% to 89 cents. Over the past 15 years, Disney's earnings per share have grown by a factor of nearly 15 times for a compound annual growth rate of 20%. While earnings growth in 1998 fell short of historical growth, the company believes that its core franchises coupled with recent investments are capable of generating long-term earnings increases.

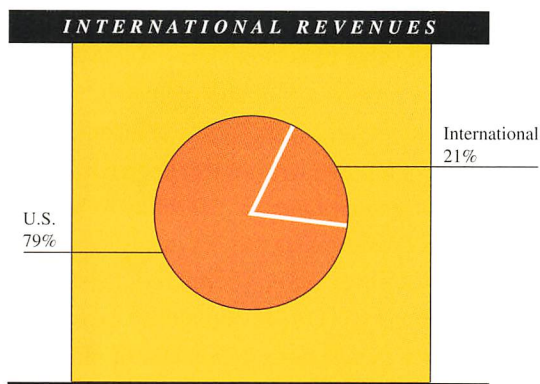




Amortization of intangible assets, including the goodwill associated with the acquisition of ABC, amounted to 21 cents per share in 1998. For those who prefer to look at earnings before this non-cash charge, diluted earnings per share excluding this amortization was \$1.10 in the fiscal year just ended.

## INTERNATIONAL

In 1998, revenues from international sources, including U.S. exports, totaled almost \$5 billion, or 21% of total company revenues.



1998 was a year of volatile economic conditions that challenged Disney to become ever more cost-conscious, as is evidenced by the strategic downsizing in certain of the company's international operations, primarily in Asia. Nonetheless, the company believes there are opportunities for significant growth in international revenues over the long term. For instance, the United States, Japan and the four largest countries in Europe constitute just over 10% of the world's population, yet they accounted for approximately 80% of Disney's licensed merchandise sales in 1998. Additionally, The Disney Store opened more new stores outside the U.S. than within the U.S. for the first time. In television, the international expansion of the Disney Channel and other Disney programming helps expand and deepen market awareness of the company's brands and products around the world, thereby paving the way for future growth. Thus, while dramatic economic growth in other parts of the world may take some time to develop, Disney continues to position itself to capitalize on long-term international growth opportunities.

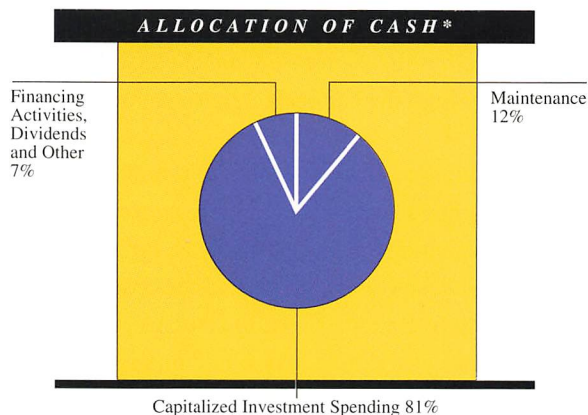
## CASH FLOW

In addition to exceptional long-term earnings growth, Disney strives to achieve increasing cash flow from its operations. Over the past three years Disney has generated cumulative after-tax cash flow from operations of nearly \$14 billion. 1998's after-tax cash flow from operations totaled over \$5 billion.

Disney's primary priority for use of its cash flow continues to be investment for attractive shareholder returns in new and existing businesses. When appropriate, Disney also seeks to efficiently return capital to shareholders through repurchase of the company's shares.

## INVESTMENT IN GROWTH INITIATIVES AND NEW BUSINESSES

In allocating its discretionary capital to projects around the company, Disney assesses and then continuously monitors each project's return on investment versus required returns (i.e., the cost of capital). By this mechanism, Disney strives to maximize the shareholder value created by its investments. In 1998, the company's total cash flow exceeded \$6 billion.\* Of this total cash flow, approximately \$700 million or 12% was spent to maintain existing assets. The company allocated another \$5.2 billion in capital spending toward projects to fuel Disney's future growth. The majority of this spending was in businesses that capitalize on and help to expand the company's core **Disney**, **ESPN** and **abc** brand franchises. Disney believes this allocation of capital to its key global brands is an important driver of long-term shareholder value.



\*Total cash flow includes after-tax cash flow from operations, borrowings and proceeds from the exercise of stock options and asset dispositions.

In addition to the capital investment cited above, 1998 results reflected the absorption of start-up costs and operating losses associated with new initiatives that the company believes can generate significant incremental value and growth for Disney shareholders within the next four to five years and beyond. These initiatives include Disney's Animal Kingdom theme park; the Disney Cruise Line; international expansion of the Disney Channel in Italy and Spain; new Toon Disney cable programming; RadioDisney; DisneyQuest; Club Disney; ESPN Classic sports network; ESPNZone restaurants/entertainment centers; ESPN-The Magazine; and a variety of





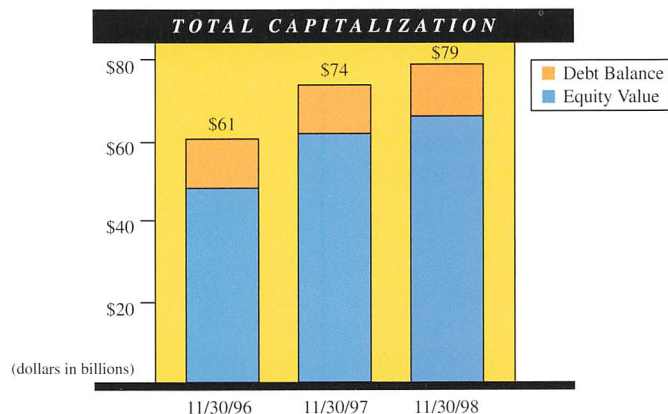
**Thomas O. Staggs**  
Executive Vice President and Chief Financial Officer,  
The Walt Disney Company

Internet-related activities under the Disney, ESPN and ABC brands, as well as the soon-to-be-launched Go Network developed through the company's investment in Infoseek.

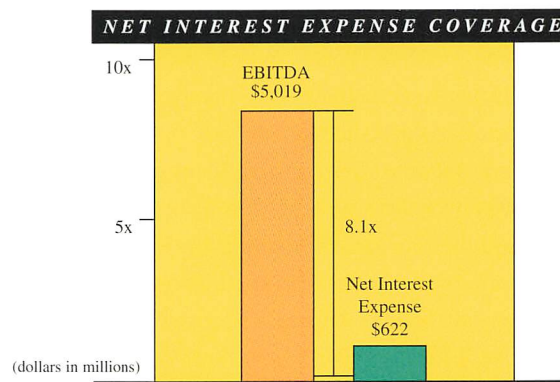
While continuing to allocate capital to promising new initiatives, Disney has also moved aggressively to limit its ongoing investment requirements in certain areas. For example, there has been an industry-wide increase in the cost of producing and marketing live-action films. In response, the company plans to release just 15 live-action motion pictures domestically under the Walt Disney, Touchstone and Hollywood Pictures labels in calendar 1999 compared to 18 live-action releases in calendar 1998. This move allows Disney to reduce its overall investment and overhead spending in live-action films, while still focusing on the highest-potential motion picture projects. As a result, the company believes it can increase its return on investment in the live-action film business.

## CAPITALIZATION

At fiscal year end, Disney had a total capitalization of \$65 billion, placing it among the 40 largest corporations in the United States. Measured as of November 30, 1998, the company's total capitalization was even higher, at \$79 billion.



Disney's solid balance sheet allows the company to borrow at attractive rates, helping to reduce the overall cost of capital and thereby creating value for shareholders. As of year end, Disney maintained total borrowings of approximately \$12 billion and a debt-to-total-capital ratio of 38%. The company believes that this level of debt represents a prudent degree of leverage, which provides for substantial financial flexibility to borrow should sound business opportunities present themselves. As measured by the ratio of earnings before net interest, taxes, depreciation and amortization (EBITDA) to net interest expense, the company covered its interest costs by a factor of more than eight times for the year ended September 30.



The company monitors its cash flow, interest coverage and its debt-to-total-capital ratio with the long-term goal of maintaining a strong single-A or better credit rating. Standard & Poor's/Moody's rates Disney's long-term debt A/A2 and its short-term debt A1/P1. Additionally, as part of its overall risk management program, the company evaluates and seeks to manage its exposure to changes in interest rates and currency exchange rates on an ongoing basis.

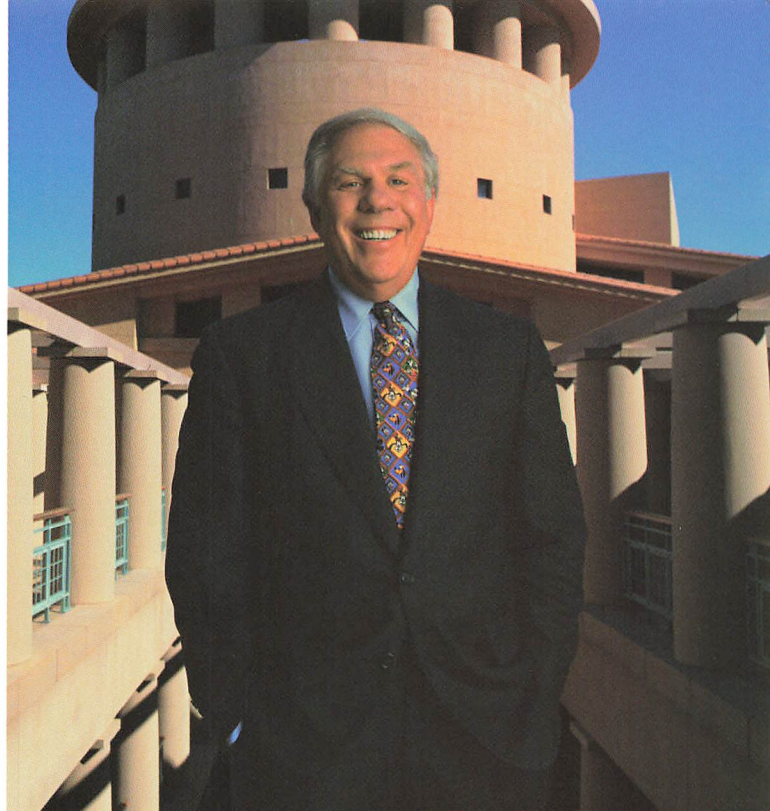
## SHAREHOLDER PAYOUT

The company distributes value to shareholders through dividends and share repurchase.

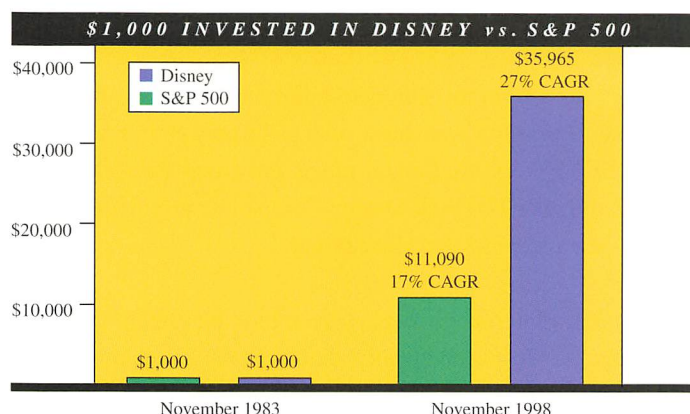
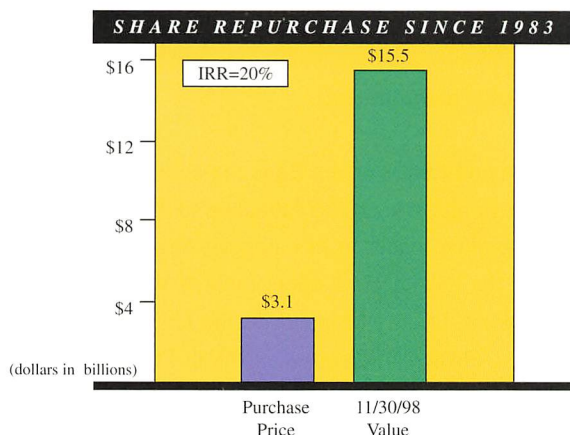


Over time, Disney has returned significant amounts of capital to shareholders through cash dividends. In January, Disney's board of directors voted to raise the company's dividend by 19%, to just over 20 cents per share. As a result, the company paid over \$400 million in dividends to Disney shareholders in 1998. Later in the year, the company's board decided that all shareholder dividends will be paid on an annual rather than a quarterly basis beginning in fiscal 1999. This change will reduce costs and vastly simplify payments to a shareholder base that includes a great number of small investors. Annual dividends will be paid in November each year as approved by the board of directors.

Through share repurchase, Disney has both returned capital to its shareholders and created significant shareholder value. Since 1983, Disney has invested \$3.1 billion to buy back 480 million shares at an average price of approximately \$6.50 per share. Measured as of November 30, these shares were worth \$15.5 billion for an annualized return of 20%, exceeding the stock market return of 14% as measured by the Standard & Poor's 500 index over the same time. As of November 30, Disney had authorization from its board of directors to repurchase an additional 400 million shares.



**Sanford M. Livack**  
Senior Executive Vice President and Chief of Corporate Operations,  
The Walt Disney Company



## TOTAL RETURN TO INVESTORS

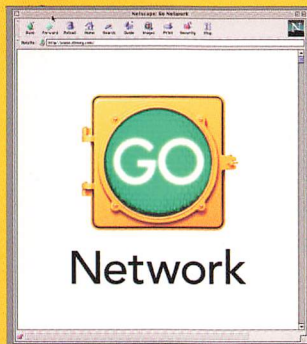
As a result of Disney's financial performance over time, driven by expansion and extension of existing brands and businesses, investment in new businesses and share repurchase, the return to long-term investors in Disney stock has surpassed the return delivered by the market overall. An investment of \$1,000 in Disney stock on November 30, 1983, including reinvestment of dividends, was worth \$35,965 on November 30, 1998, providing a 27% compound annual return over the ensuing 15-year period. A similar investment in the Standard & Poor's 500 would have been worth \$11,090 over the same time, representing a 17% annual return to investors.

Disney split its stock 3-for-1 on July 9, the seventh stock split since the company went public in 1940. As evidence of the ongoing strength of the Disney franchise, 100 shares of Disney stock purchased for \$2,500 in the company's initial public offering would have equaled 250,233 shares worth approximately \$8 million as of November 30, a compound annual growth rate of nearly 15% over the last 58 years. Through the patient pursuit of earnings growth and an intense focus on managing and investing to create shareholder value, the company strives to continue providing superior returns for its shareholders.





The ESPN Zone in Baltimore is the prototype for this new sports-themed dining and entertainment venue.



The Go Network will be Disney's Internet hub, a portal through which consumers can gain access to all of the company's on-line resources as well as the Internet at large.



DisneyQuest opened its first site in Downtown Disney at Walt Disney World.

## NEW BUSINESSES

### *B*UENA VISTA INTERNET GROUP

Late in 1997, Buena Vista Internet Group was formed to consolidate and coordinate the company's wide-ranging Internet initiatives.

BVIG's short-term mission is to build on the success of the company's existing web sites, such as Disney.com, ESPN.com and ABCNEWS.com. Longer range, the group's ambitious goal is to make The Walt Disney Company a prominent force in the new media of the 21st century.

Buena Vista Internet Group has been moving effectively on both tracks. Most dramatically, thanks to the company's 43 percent strategic investment in Infoseek, BVIG was able to announce the creation of the Go Network™ ([www.go.com](http://www.go.com)). The Go Network seeks to be one of the leading portals on the Internet, serving as an interactive hub through which people can gain access to the Internet at large, as well as every form of information and entertainment that Disney offers.

The strength of Disney's industry-leading web sites and Infoseek's search engine enabled the Go Network, at the moment of its preview launch in December, immediately to have one of the largest unduplicated reaches on the Internet. But what most sets the Go Network apart is the richness of its content. Like other portals, Go will offer the ability to quickly and efficiently access the best content and services on the Internet. Beyond that, it will comprise a distinct interactive network that utilizes Disney's original content, creative

expertise and marketing strengths to create an attractive and effective home base for millions of Internet users.

The Go Network will be the company's Internet entryway, providing access to the array of sites that have been developed within BVIG's four distinct areas: (1) kids and family, (2) news, (3) sports and (4) entertainment.

Within the kids and family umbrella is the company's flagship web site, Disney.com, which was launched in 1996 and has grown to be the clear leader in its category. Separate sites that also sail under the Disney.com colors include Walt Disney World, Disneyland, Disney Channel, Radio Disney, Walt Disney Pictures, Disney Interactive and Walt Disney Records.

Also serving kids and families is Family.com, which, in just two years, has become the premier online information resource for parents. It combines top-quality content, localized calendar listings of family-oriented activities and bulletin boards that encourage parents to share ideas and experiences with one another.

The Disney Store Online (<http://store.disney.com>) offers thousands of Disney-themed gifts and specialties from home videos to clothing to collectibles. Even though the Disney Store Online is still in its infancy, it already has amassed monthly sales equal to eight "brick and mortar" stores.

An extremely valuable service for kids and families is Disney's Internet Guide ([www.dig.com](http://www.dig.com)), which was introduced in June as an effective Internet search and directory tool that emphasizes family lifestyles and interests.



**infoseek®**

BVIG's sports offerings start with ESPN.com, the number-one sports site on the web, paralleling ESPN's sports prominence on television. ESPN.com embraces the official sites for the National Football League (NFL.com), the National Basketball Assn. (NBA.com), NASCAR (NASCAR.com) and the Women's National Basketball Assn. (WNBA.com). In addition to being the source of up-to-the-minute scores and stats, ESPN.com offers unique interactive features, multimedia, live chats with players, exclusive analysis by ESPN experts and an array of fantasy sports leagues. What's more, sports fans can order all manner of sports-related merchandise at the ESPN Store Online (<http://store.espn.com>).

ABCNEWS.com leads off the news category and includes such featured sites as Mr. Showbiz.com, an in-depth and irreverent source of entertainment news, and WallofSound.com, which covers the worlds of rock and pop music. Building on the popularity and reputation of ABC News, ABCNEWS.com is now the fastest-growing news site on the web, having more than doubled its reach from September 1997 to September 1998.

The entertainment segment is led by ABC.com. Last year, in an exciting demonstration of the potential of the television and Internet experiences to complement each other, an all-time high of 20,000 fans simultaneously chatted with cast members at the end-of-season "TGIF Wrap Party." During

the party, the online audience grew on average by more than 100 people a second. ABC.com also served as the official web site for the 78th Miss America Pageant ([www.abc.com/missamerica](http://www.abc.com/missamerica)), offering users the ability to participate in online judging. Among ABC.com's other affiliated sites are Oscar.com, which recorded more than 5.2 million page views the night of the Academy Awards, and Oprah.com, which enables the legendary Oprah Winfrey to extend her reach to cyberspace, in the spirit of her "Change Your Life TV."

The true potential of the Internet has barely been tapped. With Buena Vista Internet Group in place, The Walt Disney Company is now uniquely positioned to make the most of this extraordinary new electronic avenue to entertainment, news, information and commerce.

### *DISNEY REGIONAL ENTERTAINMENT*

As its name states, Disney Regional Entertainment was established to bring Disney entertainment to regions across the country and, eventually, around the world. To fulfill this mandate, Disney Regional Entertainment has created three completely new entertainment venues to appeal to guests of all ages.



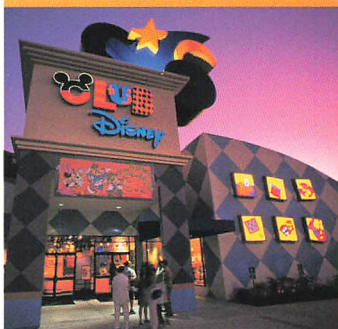
First, there's Club Disney, where children can star in the Fantasy Fashion Show dressed as their favorite Disney characters, create a "mousterpiece" in the Character Creations art studio, bounce like Tigger in Pooh 'N You or eat a Mickey Pizza in the Club Cafe. Private birthday parties are a specialty. Club Disney now operates in two locations near Los Angeles — in Thousand Oaks and West Covina, California. Openings are planned for early 1999 in Chandler and Glendale, Arizona, and in Lone Tree, Colorado, outside of Denver.

Then there's ESPNZone. Want the best seat in the house to watch "the game" on a 16-foot TV monitor? How about a live ESPN telecast from behind the scenes while you dine at the SportsCenter studio set? Or do you want to tackle the latest in active and interactive sports games? Then you've come to the right place. ESPNZone is a sports-themed dining and entertainment facility that captures ESPN's culture, broadcasting prominence and wry humor. Nearly the size of a football field, ESPNZone comprises the Studio Grill, the Screening Room and the Sports Arena. The first ESPNZone opened in Baltimore's Inner Harbor last summer and has regularly played host to capacity crowds ever since. Locations in Chicago and New York's Times Square will open this summer.

The third Disney Regional Entertainment concept is DisneyQuest, a place that combines the best of Disney storytelling with the latest in innovation and technology to create interactive entertainment for the entire family. At DisneyQuest, guests can shoot the rapids through a prehistoric world on the Virtual Jungle Cruise, ride a roller coaster of their own design on CyberSpace Mountain or fly a magic carpet through the bazaars and alleyways of Agrabah on Aladdin's Magic Carpet Ride. Adventurers can enjoy a respite in two areas: the Wonderland Cafe (desserts and drinks) and FoodQuest (salads, sandwiches and pizza). The first DisneyQuest has begun operation in Downtown Disney at Walt Disney World. A second site will open in Chicago this summer, to be followed by a DisneyQuest in Philadelphia.

Club Disney, ESPNZone and DisneyQuest have all been extremely well received in the regions where they've opened. Quite possibly, one of these distinct entertainment centers will be coming to your city sometime in the next decade.

Club Disney offers Disney fun close to home.



Inside the ESPN Zone, guests can watch sporting events, eat at the Studio Grill or try out the latest interactive sports games in the Sports Arena.



The latest technology and Disney storytelling come together inside DisneyQuest, which features interactive entertainment for the whole family.







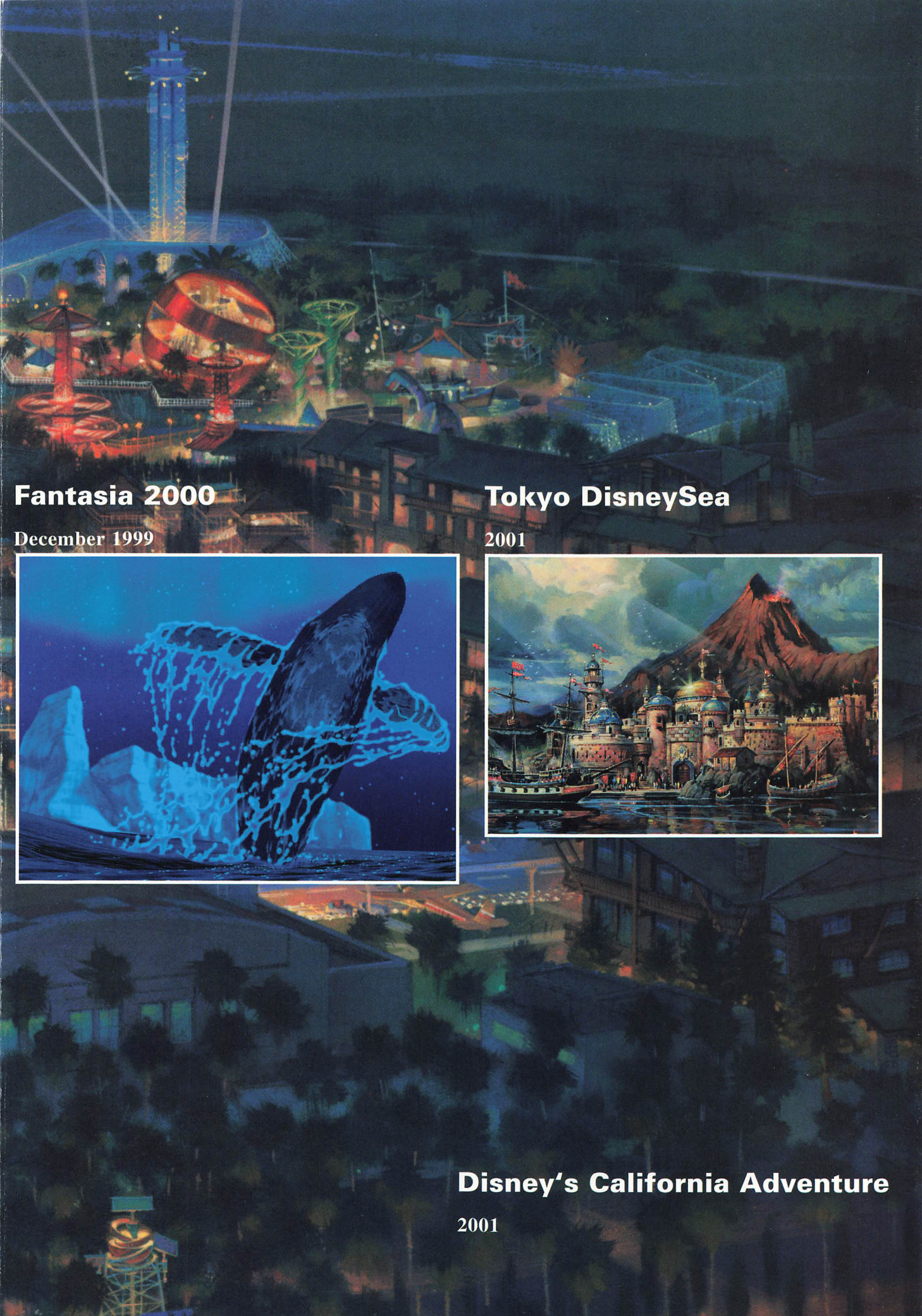
The Walt Disney Company

# A 75 Year Legacy

## A Commitment to a New Millennium

L I F O R N I A





**Fantasia 2000**

December 1999



**Tokyo DisneySea**

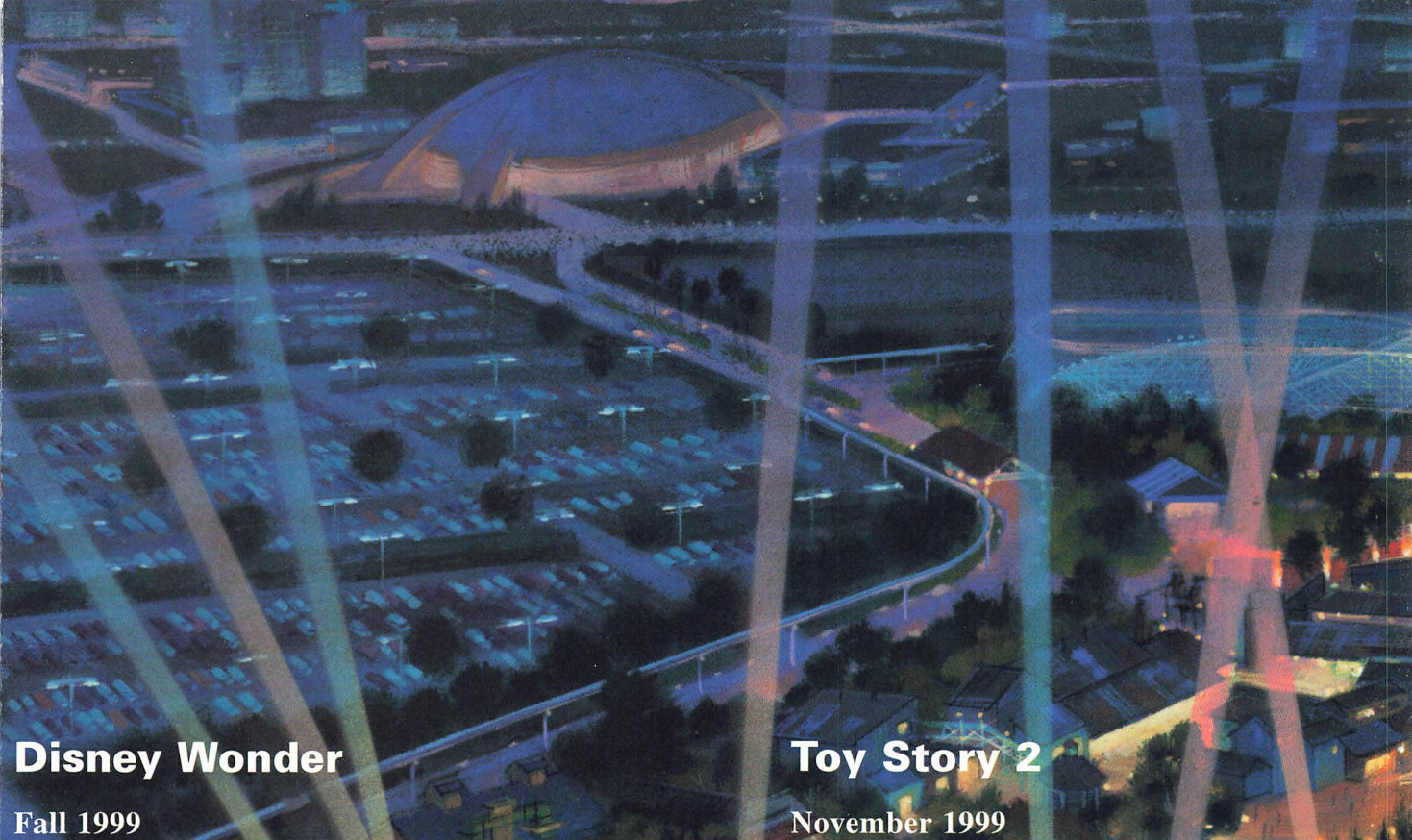
2001



**Disney's California Adventure**

2001





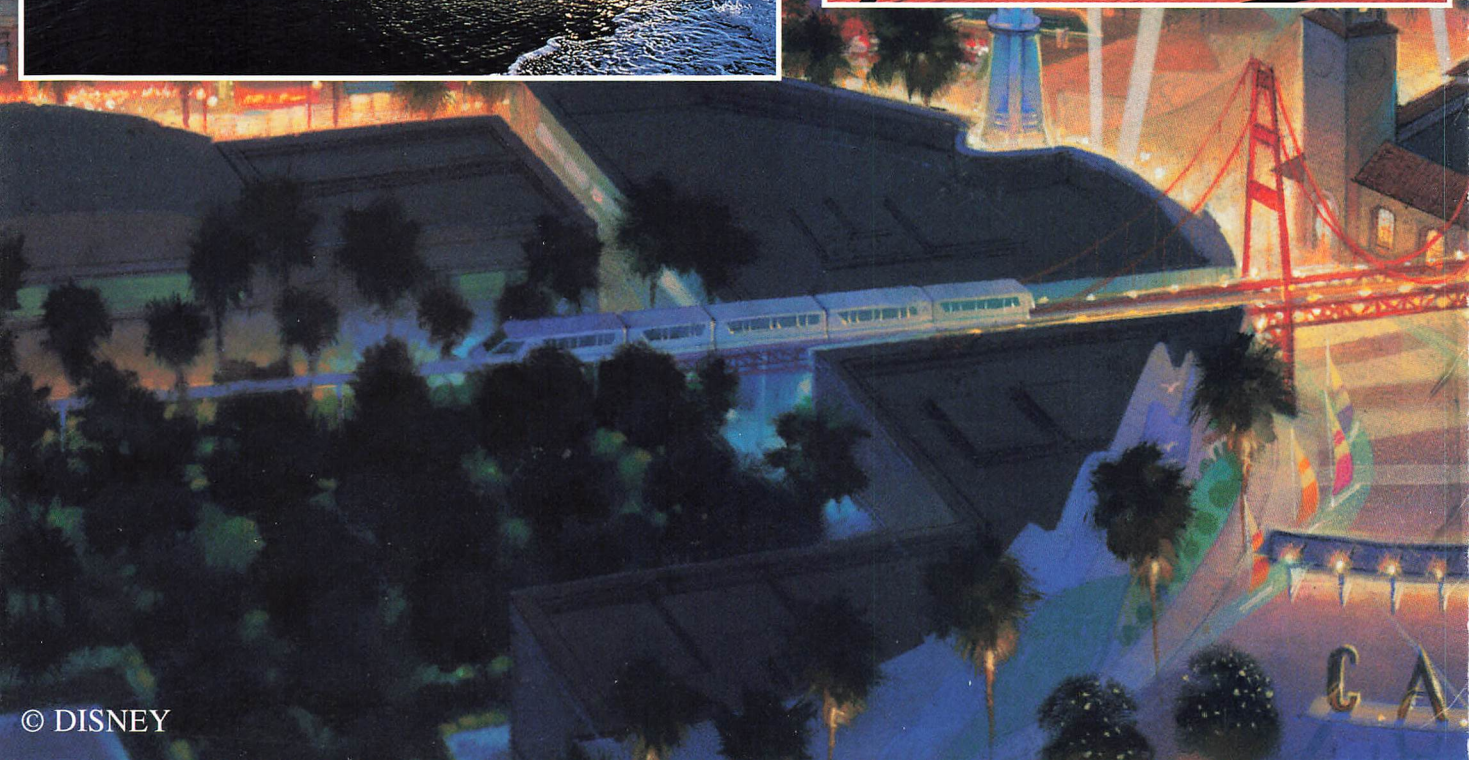
**Disney Wonder**

Fall 1999

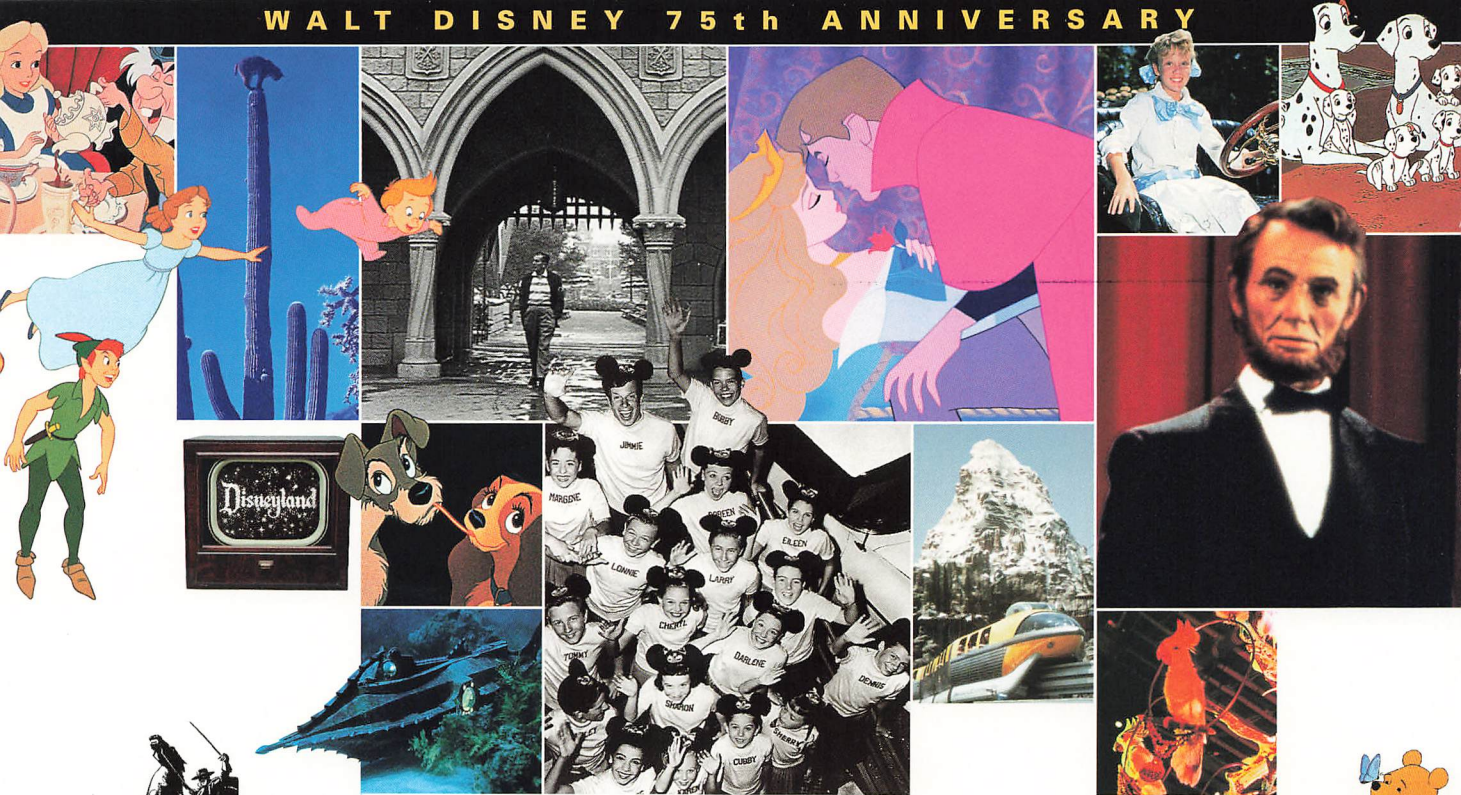


**Toy Story 2**

November 1999





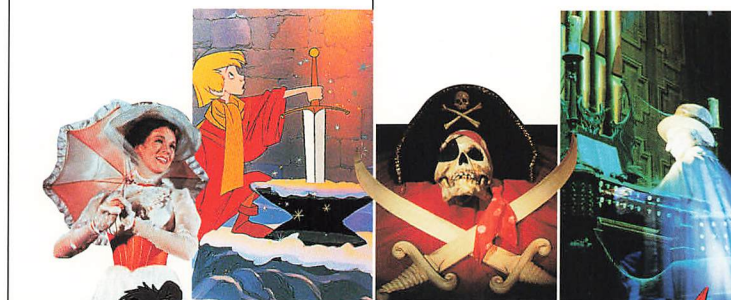


## 1950's

- 2-15-50 **Cinderella**
- 7-19-50 **Treasure Island**
- 12-25-50 **One Hour in Wonderland**  
First Disney TV broadcast.
- 7-26-51 **Alice in Wonderland**
- 2-5-53 **Peter Pan**
- 11-10-53 **The Living Desert**  
First film distributed by Buena Vista Distribution Company.
- 10-27-54 **Disneyland TV Show**  
First airs on ABC.
- 12-23-54 **20,000 Leagues Under the Sea**
- 7-17-55 **Opening of Disneyland**
- 10-3-55 **Mickey Mouse Club**  
First airs on ABC.
- 7-16-55 **Lady and the Tramp**
- 10-10-57 **Zorro**  
TV series first airs.
- 1-29-59 **Sleeping Beauty**
- 6-14-59 **"E-ticket" Rides**  
Dedication of Monorail, Submarine, and Matterhorn at Disneyland.

## 1960's

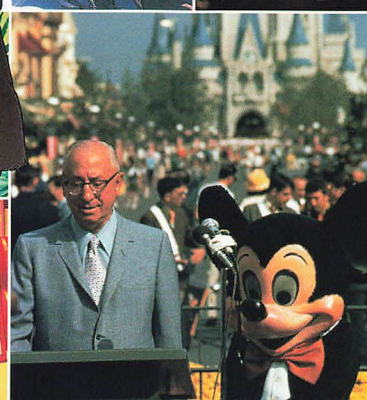
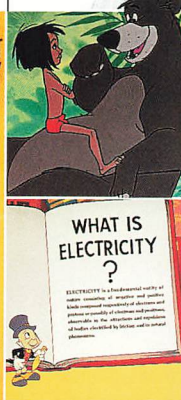
- 5-19-60 **Pollyanna**
- 1-25-61 **101 Dalmatians**
- 6-23-63 **Enchanted Tiki Room**
- 4-22-64 **New York World's Fair**  
Four Disney exhibits open, including It's a Small World, Ford's Magic Skyway, Carousel of Progress, and Great Moments with Mr. Lincoln.
- 12-25-63 **The Sword and the Stone**
- 8-27-64 **Mary Poppins**
- 12-15-66 **Death of Walt Disney**



- 3-18-67 **Pirates of the Caribbean**  
Opens at Disneyland.
- 10-18-67 **The Jungle Book**
- 3-13-67 **The Love Bug**
- 6-25-69 **Walt Disney Educational Materials Co.**  
Incorporated.
- 8-9-69 **Haunted Mansion**  
Opens at Disneyland.

## 1970's

- 12-11-70 **The Aristocats**
- 10-1-71 **Walt Disney World**  
Opens near Orlando, Florida.
- 10-7-71 **Bedknobs and Broomsticks**
- 12-20-71 **Death of Roy O. Disney**
- 11-8-73 **Robin Hood**
- 1-15-75 **Space Mountain**  
Opens at Walt Disney World.
- 3-11-77 **The Many Adventures of Winnie the Pooh**
- 6-22-77 **The Rescuers**
- 9-2-79 **Big Thunder Mountain Railroad**  
Opens at Disneyland.





## 1930's

## 1940's

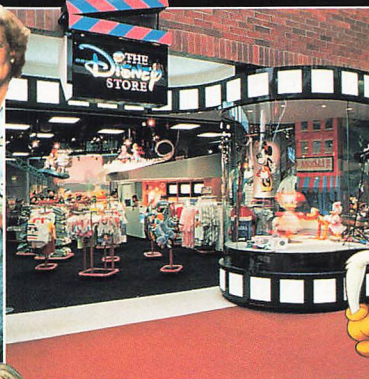
2-7-40 **Pinocchio**  
11-13-40 **Fantasia**  
10-23-41 **Dumbo**  
8-8-42 **Bambi**  
8-24-42 **Saludos Amigos**  
12-21-44 **The Three Caballeros**  
11-12-46 **Song of the South**  
First live-action feature released.  
12-21-48 **Seal Island**  
First True Life Adventure.  
10-1-49 **Walt Disney  
Music Company**  
Formed.



WRITTEN AND ILLUSTRATED BY THE STAFF OF THE WALT DISNEY ST







## 1980's

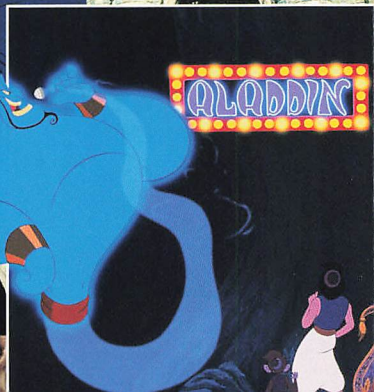
- 7-10-81 **The Fox and the Hound**
- 10-1-82 **EPCOT Center**  
Opens at Walt Disney World.
- 4-15-83 **Tokyo Disneyland**  
Opens in Japan.
- 4-18-83 **The Disney Channel**  
Begins broadcasting on cable TV.
- 3-9-84 **Splash**  
First Touchstone release.
- 9-22-84 **Michael Eisner and Frank Wells**  
Become Chairman and President of Walt Disney Productions.

- 9-14-85 **Golden Girls**  
TV series first airs.
- 1-9-87 **Star Tours**  
Opens at Disneyland.
- 3-28-87 **The Disney Store**  
First store opens in the Glendale Galleria, CA.
- 11-25-87 **Three Men and a Baby**  
Studio's first film to gross \$100 million in the U.S.
- 6-22-88 **Who Framed Roger Rabbit**

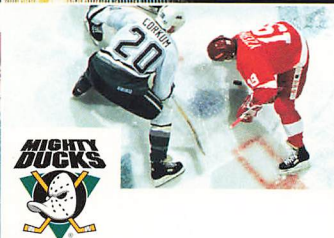
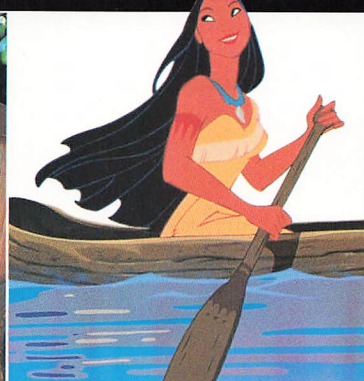
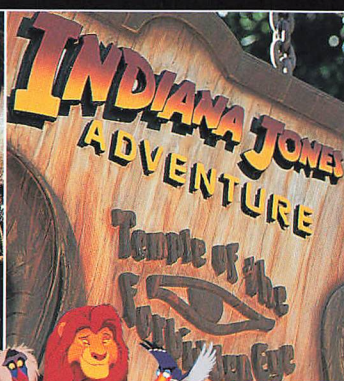
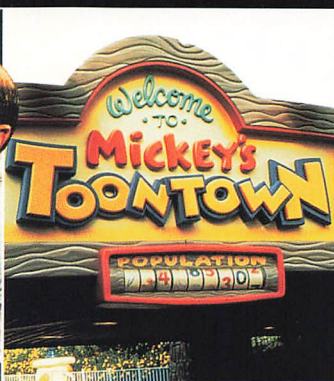
- 6-28-88 **The Grand Floridian Beach Resort**  
One of fifteen resorts to open throughout the next decade at Walt Disney World.
- 5-1-89 **Disney-MGM Studios and Pleasure Island**  
Open at Walt Disney World.
- 6-1-89 **Typhoon Lagoon**  
Opens at Walt Disney World
- 7-17-89 **Splash Mountain**  
Opens at Disneyland.
- 11-15-89 **The Little Mermaid**

## 1990's

- 1-1-90 **Hollywood Records**  
Begins operation.
- 11-4-90 **American Teacher Awards**  
First broadcast on The Disney Channel.
- 5-6-91 **The Walt Disney Company joins the Dow Jones Industrial Average**
- 9-17-91 **Home Improvement**  
TV series first airs.
- 9-26-91 **Hyperion Books**  
Publishes its first book.
- 11-13-91 **Beauty and the Beast**  
Only animated feature to ever be nominated for Best Picture.





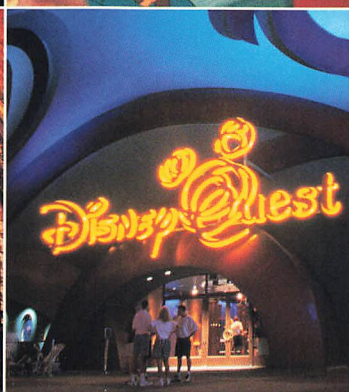
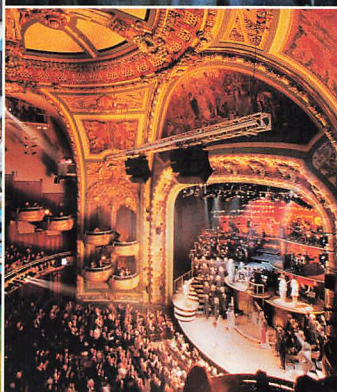


- 4-12-92 **Euro Disneyland (now Disneyland Paris)**  
Opens at Marne-la-Vallée, France.
- 11-11-92 **Aladdin**
- 1-24-93 **Mickey's Toontown**  
Opens at Disneyland.
- 4-29-93 **Miramax Film Corp.**  
Acquired.
- 10-18-93 **Inaugural Game of The Mighty Ducks**
- 4-18-94 **Beauty and the Beast**  
Stageplay opens on Broadway.

- 10-94 **Don't Stand Too Close to a Naked Man**  
Hyperion's first #1 Best Seller.
- 6-15-94 **The Lion King**
- 12-5-94 **Disney Interactive**  
Formed.
- 3-3-95 **Indiana Jones Adventure**  
Opens at Disneyland.
- 5-18-95 **California Angels**  
Agreement to purchase 25% of the baseball team.
- 6-16-95 **Pocahontas**
- 7-31-95 **Capital Cities/ABC**  
Purchased by Disney.
- 11-22-95 **Toy Story**

- 2-21-96 **Disney.com**  
Goes online.
- 6-21-96 **The Hunchback of Notre Dame**
- 11-18-96 **Radio Disney**  
Debuts on ABC Radio Network.
- 2-21-97 **Club Disney**  
Opens in Thousand Oaks, CA.
- 5-20-97 **New Amsterdam Theatre**  
The renovated theater opens in New York City as home for Walt Disney Theatrical Productions.
- 6-14-97 **Hercules**
- 9-13-97 **Disney's One Saturday Morning**  
Premieres on ABC.

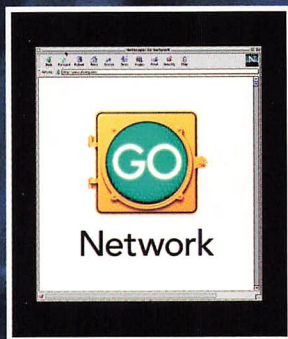
- 11-13-97 **The Lion King**  
Stageplay opens on Broadway.
- 4-22-98 **Disney's Animal Kingdom**  
Opens at Walt Disney World.
- 4-30-98 **Starwave**  
Acquired.
- 6-19-98 **Mulan**
- 6-19-98 **Infoseek**  
Partnership announced.
- 6-19-98 **DisneyQuest**  
Opens at Walt Disney World.
- 7-12-98 **ESPN Zone**  
Opens in Baltimore.
- 7-30-98 **Disney Magic**  
Sails on inaugural voyage.
- 10-16-98 **75th Anniversary**



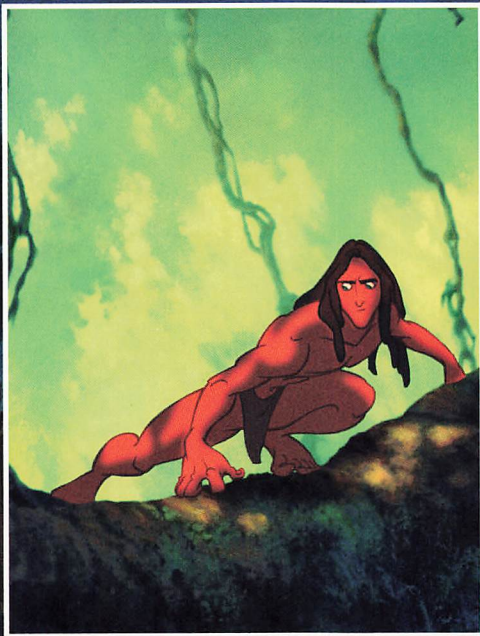


## Go Network Tarzan.

March 1999



June 1999



## DisneyQuest Chicago

Summer 1999





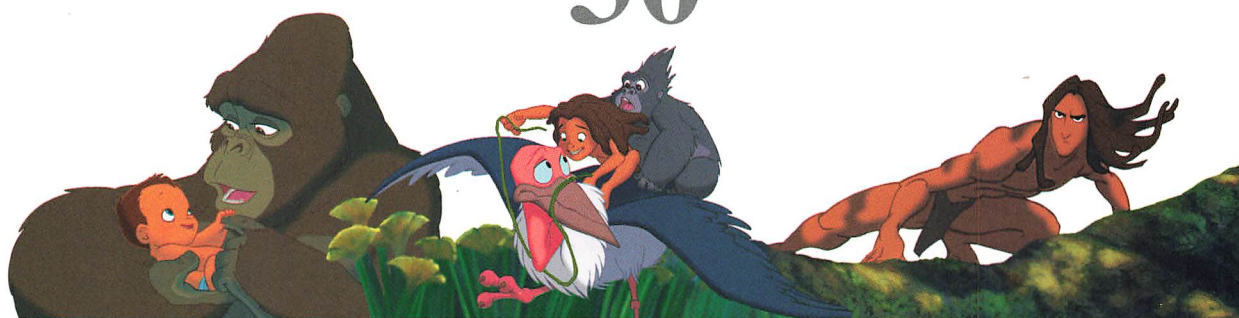
*O*PERATING *S*EGMENTS



18

THEME PARKS AND RESORTS

30



CREATIVE CONTENT

44

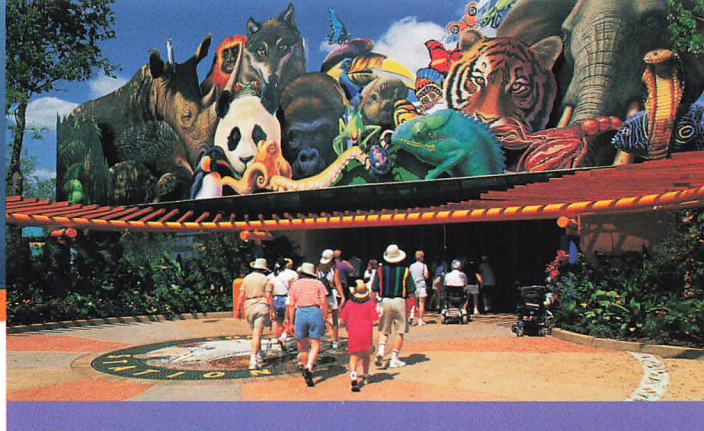


BROADCASTING





The Disney Cruise Line's first ship, Disney Magic, made its maiden voyage in July.



The gates to the entrance of Disney's Animal Kingdom swung open in April, welcoming guests to the extraordinary world of animals.



The Rocket Rods in the new Tomorrowland—Disneyland's fastest ride.

# THEME PARKS AND RESORTS

## ATTRACTIONS

Walt Disney World, Disneyland, Tokyo Disneyland and Disneyland Paris remain the most popular theme park destinations in the world. Nineteen ninety-eight was a banner year for new attractions, entertainment and adventure on land and sea.

### WALT DISNEY WORLD RESORT

Dedicated in April, Disney's Animal Kingdom tells the extraordinary stories of all animals — real, ancient and imagined. Designed and created by Walt Disney Imagineering, the 500-acre theme park offers guests wide-ranging adventures. They can travel to the age of dinosaurs on Countdown to Extinction, relive the saga of Simba at the Festival of the Lion King show, experience close-up encounters with free-roaming wildlife on Kilimanjaro Safaris, and get even closer-up at the 3-D film *It's Tough to Be a Bug!* inside the majestic Tree of Life.

This year, Disney's Animal Kingdom adds Asia to its landscape, inviting guests to explore the mysterious world of the Far East. Maharajah Jungle Trek is a breathtaking visit to the exotic animals of the rainforest, where giant fruit bats fly overhead and a 12-foot-long Komodo dragon suns nearby. Then it's time to board a raft for a thrilling whitewater expedition on the Kali River Rapids that takes guests past fiery brush and falling logs, through speeding turns and rushing rapids, with a surprise at every bend.

The three other Walt Disney World theme parks also welcome new attractions and entertainment in 1999.

The Magic Kingdom continues to bring favorite Disney characters to life, starting with Buzz Lightyear's Space Ranger Spin, which takes guests "to infinity and beyond." Set in the playful world of *Toy Story*, it teams guests with the beloved astro-hero for a daring mission to save the universe from the evil Emperor Zurg.

Guests join Pooh and friends for a journey through a storybook page and into the Hundred Acre Wood in The Many Adventures of Winnie the Pooh. This ride offers state-of-the-art special effects and a memorable musical score to highlight a whimsical trip as seen from a seat in a giant traveling honey pot.

This summer, the original Disneyland Main Street Electrical Parade comes to the Magic Kingdom, inviting guests to relive the most popular night-time spectacle in the history of Disney theme parks.

At Epcot, Test Track, presented by General Motors, will open this spring, offering guests the longest, fastest ride ever created by Walt Disney Imagineers. The attraction sends drivers through a dizzying array of test-vehicle maneuvers — dodging obstacles, climbing hills, braking and swiftly accelerating. Highlights include a tire-squealing three-story ascent, a close encounter with crash testing and a high-speed ride along a steeply banked highway.

The countdown to the year 2000 continues as the resort-wide Millennium Celebration begins this October, centered at Epcot. The 15-month-long event will feature novel exhibits and entertainment, a new millennium pavilion and a spectacular new version of Epcot's popular nighttime IllumiNations presentation. During a recent visit to Epcot, U.N. Secretary General Kofi Annan announced that the United Nations will be an official participant in the Millennium Celebration.



Top: The Kilimanjaro Safari at Disney's Animal Kingdom offers guests a close-up look at free-roaming wildlife.

Bottom Left: Disney's Animal Kingdom will expand this year with an Asia-themed land.

Bottom Right: Buzz Lightyear's Space Ranger Spin at The Magic Kingdom takes guests into the world of *Toy Story*.







**Judson C. Green**  
Chairman, Walt Disney Attractions

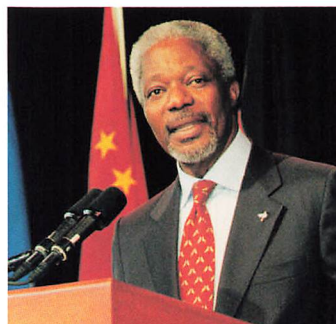
The Fantasmic! night-time show opened at the Disney-MGM Studios in November.

At the Disney-MGM Studios, an inventive daytime parade salutes *Mulan* with 53 performers, acrobats and puppeteers. Its centerpiece is the 150-foot-long Great Stone Dragon, with 17 performers walking and winding to portray the Great Wall of China.

A festival of lasers, fountains and dazzling special effects is lighting up the nighttime skies at the Studios. Fantasmic! takes guests inside the dreams of Mickey Mouse to a world where magic creates shooting comets, swirling stars, balls of fire and other wonders.

In addition, Rock 'n' Roller Coaster opens this summer. It features a synchronized soundtrack that plays in each ride vehicle as guests are blasted into the high-speed adventure. There are unexpected twists and turns, including three inverted loops.

After a day at the theme parks, guests will find new and novel places to relax. Giant icons from five Disney films set the scene at Disney's All-Star Movies Resort next door to Disney's All-Star Music and All-Star Sports resorts. This is the place to meet the "biggest" stars: Pongo and Perdita from *101 Dalmatians* and Buzz Lightyear from *Toy Story* reach heights of more than 35 feet, and Herbie the famous love bug is five times his normal size.



Secretary General Kofi Annan announced the United Nations' official participation in the Millennium Celebration at Epcot.

Opening this summer at Disney-MGM Studios, the Rock 'n' Roller Coaster promises to shake, rattle and roll visitors with music synchronized to each twist and turn of this thrill ride.





Disney Vacation Club will expand its presence with a new vacation resort next to Disney's Wilderness Lodge. Designed as a turn-of-the-century hotel built in one of the great national parks, it will feature 136 units and open in the fall of 2000.

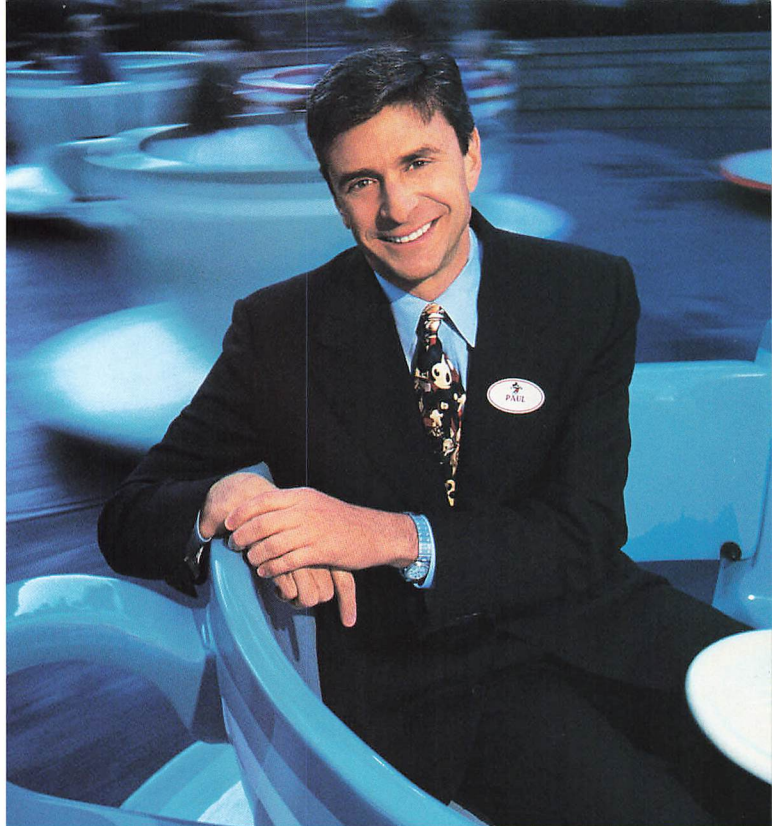
Also on the horizon is Disney's Animal Kingdom Lodge, a 1,300-room resort that is scheduled to open in 2001. From their balconies guests will view zebra, giraffe and antelope on an African savanna.

At night, dazzling circus acts take center stage at the Cirque du Soleil theater at Downtown Disney West Side. The world-renowned French-Canadian troupe showcases more than 60 tumblers, trapeze artists and clowns who perform in a 1,650-seat theater that resembles a circus tent. The West Side is also home to the world's first DisneyQuest entertainment center (see Disney Regional Entertainment).

At the Wild Horse Saloon at Downtown Disney Pleasure Island, guests dance to hot new country performers. Nearby, the BET SoundStage Club keeps the beat going with the best of jazz, rhythm and blues, soul and hip-hop.

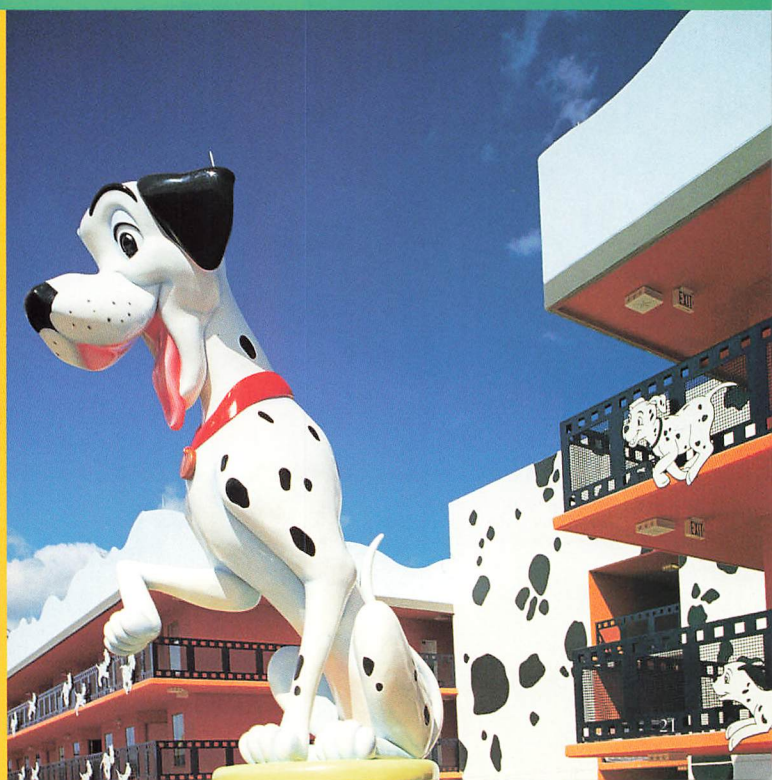
Disney's Wide World of Sports continues to expand its line-up. From the U.S. Men's Clay Court championships to the training camps of the Harlem Globetrotters, Orlando Magic and the Atlanta Braves, guests can enjoy watching almost any professional sport. Amateur competition at the complex includes such sports as track and field, soccer, softball, gymnastics and wrestling.

Walt Disney World's Mulan Parade includes acrobats, dragons and the Great Wall of China.



**Paul S. Pressler**  
President, Walt Disney Attractions

35-foot statues of Pongo and Perdita greet guests at the new All-Star Movies Resort at Walt Disney World.





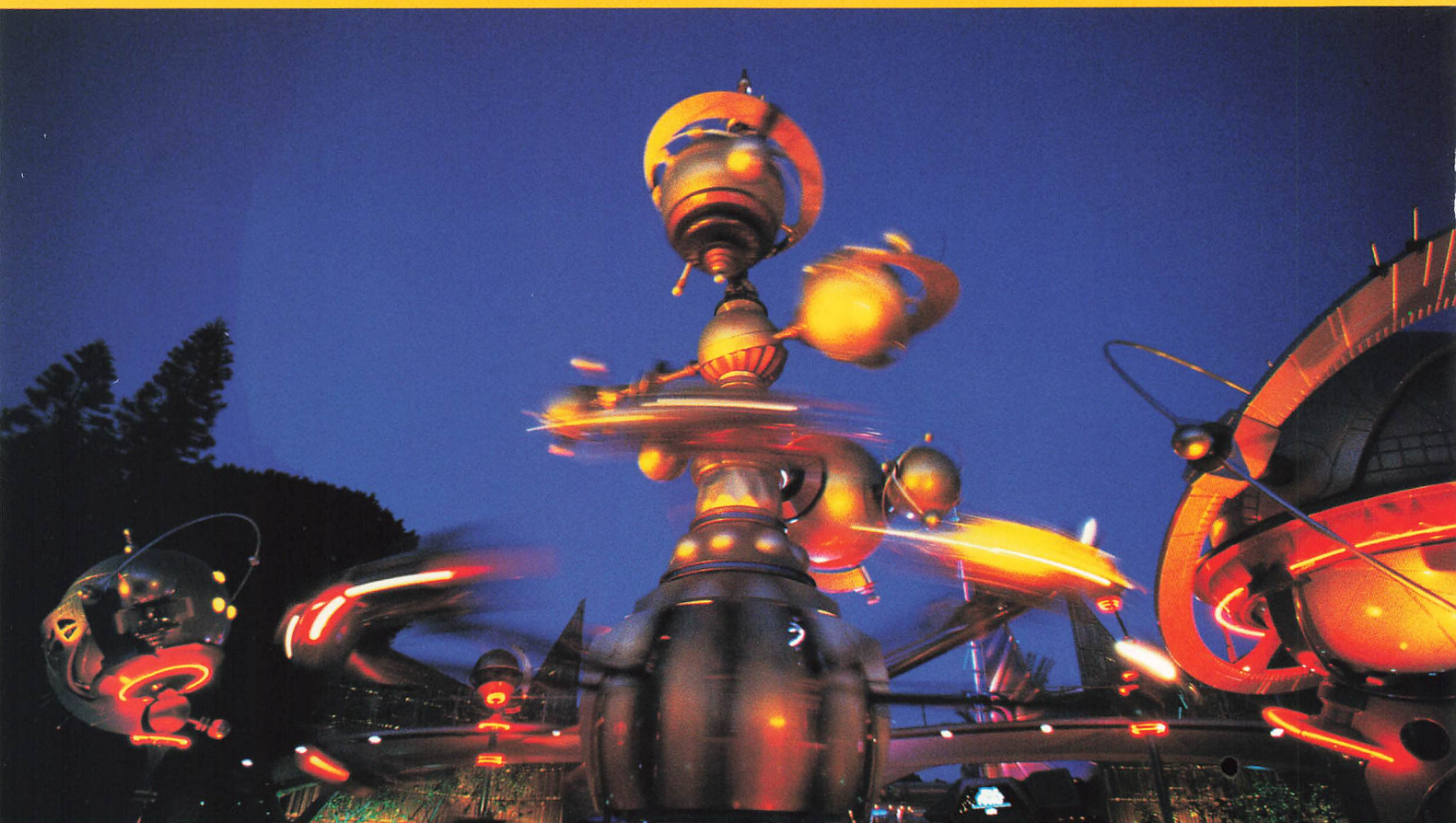


High-scoring right winger Teemu Selanne leads the NHL's Mighty Ducks of Anaheim.



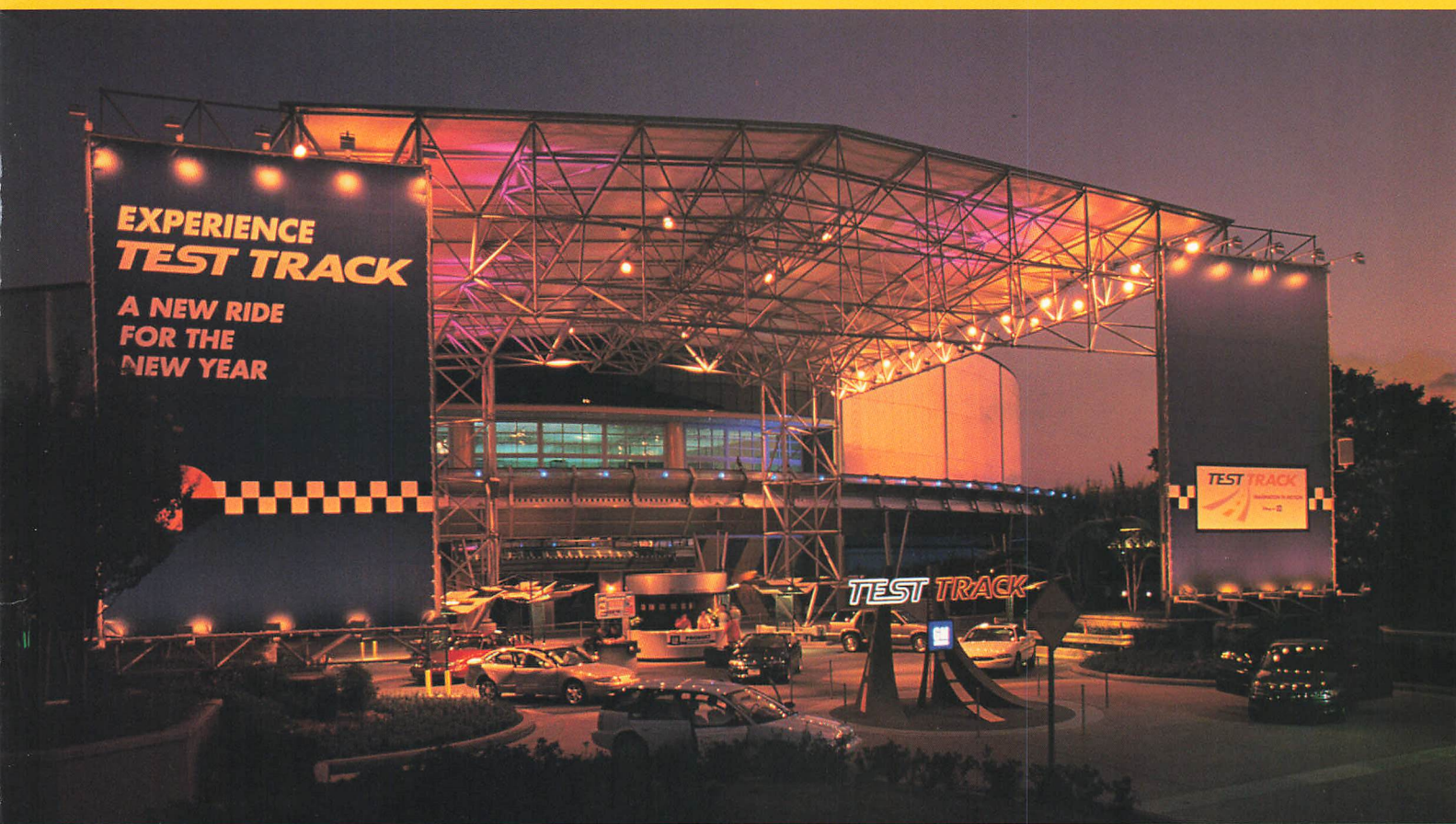
The Anaheim Angels are well armed with top talent like Darin Erstad as they begin a run at the pennant in April.

Top Left: The new Tomorrowland at the Disneyland Resort features Innoventions, which showcases cutting-edge technology.



Inspired by the work of Jules Verne, the Astro Orbiter is the centerpiece of the new Tomorrowland at the Disneyland Resort.





Top: Cirque du Soleil, the innovative French-Canadian circus, began performing in its new theater at Downtown Disney West Side at the end of 1998.

Bottom: Epcot's Test Track, presented by General Motors, is the longest and fastest ride ever created by WDL.



## DISNEY CRUISE LINE

To the familiar strains of *When You Wish Upon a Star* blaring from its horn, Disney Cruise Line's first ship, Disney Magic, began sailing in July from Port Canaveral, Florida. Disney Cruise Line offers three- or four-day stays at Walt Disney World, followed by three- or four-day cruises that include a day in Nassau and another at a Disney vacation exclusive destination — Castaway Cay.

Disney Magic offers Broadway-style productions, an adult nightclub district, a full-screen cinema, four themed restaurants, a spa and salon, three swimming pools and a deck with activities for children... all on a ship that evokes the days when classic liners cruised the seas.

Castaway Cay, Disney's own island, is 1,000 acres of Bahamian white sand and blue water. Among its unique features is an underwater exploration trail that awaits snorkelers in a protected inlet.

Disney Magic's sister ship, Disney Wonder, will be launched later in 1999.

Disney Magic docks at Castaway Cay, Disney's private island hideaway.



## DISNEYLAND RESORT

The new Tomorrowland, which opened in 1998, draws on images from such futuristic dreamers as H.G. Wells, Jules Verne, Leonardo da Vinci, George Lucas and Walt Disney himself. Its centerpiece is the Astro Orbiter, a kinetic sculpture that stands amid a fleet of guest-piloted spaceships.

Rocket Rods offers the fastest ride with the longest track at Disneyland. The combination rocket and hot rod speeds guests on a fantasy elevated transit system of the future — with nothing but space on either side!

Honey, I Shrunk the Audience, the popular interactive 3-D film from Epcot, also joined the Tomorrowland family, as did Innoventions, a two-level pavilion in which guests can see, hear and touch interactive products and technology of the future. Long-time favorites Star Tours and Space Mountain round out the Tomorrowland attractions.



The lavish interiors of The Disney Magic bring back memories of the great cruise liners of yesteryear.





Construction continues on Disney's California Adventure, due to open in 2001. The park comprises three major areas: Golden State, Paradise Pier and Hollywood. From the hub, guests will be able to see Grizzly Peak, its bear-shaped mountain, a gleaming white roller coaster called California Screamin' and the opulent studio gates that mark the entrance to the Hollywood Backlot.

Situated behind Grizzly Peak Recreation Area will be Disney's Grand Californian, a deluxe, 750-room hotel actually inside the theme park. It is designed in a century-old style that emphasizes hand-crafted natural materials.

### *DISNEYLAND PARIS RESORT*

For several years the most popular tourist destination in Europe, Disneyland Paris continues to delight guests with seasonal events, entertainment spectacles and new attractions.



**Richard A. Nunis**

Outgoing Chairman, Walt Disney Attractions, who started his Disney career working at Disneyland on opening day.

Tokyo Disneyland celebrates its 15th anniversary with the Carnivale Parade.





From the spring Festival of Flowers to the Frontierland Halloween Festival to A Disney Classics Christmas, the seasons are brought to life by myriad Disney characters. The newest Disney heroine, Mulan, makes her way down Main Street in a spectacular parade.

Honey, I Shrunk the Audience opens in the spring. The Millennium Celebration begins this fall, culminating in a dazzling millennial New Year's Eve spectacle.

## *TOKYO DISNEYLAND*

This spring, Tokyo Disneyland will mark the end of its year-long 15th-anniversary event, which premiered the Disney Carnivale parade, Viva Magic and the nightly Starlight Magic show. Donald Duck is waiting in the wings to kick off a six-month celebration, Donald's Wacky Kingdom, in 1999.

In October, Disney joined with the park's owner-operator, Oriental Land Co., Ltd., at the groundbreaking for Tokyo DisneySea. Construction was also begun on a 500-room hotel adjacent to Tokyo Disneyland — the Disney Ambassador Hotel — scheduled to open in 2000.

The Tokyo DisneySea theme park and its in-park hotel, the Hotel MiraCosta, are scheduled to open in 2001. In addition, when the park opens, a monorail will begin operation linking the two theme parks, the two Disney hotels, five other official hotels and a nearby entertainment and dining complex.

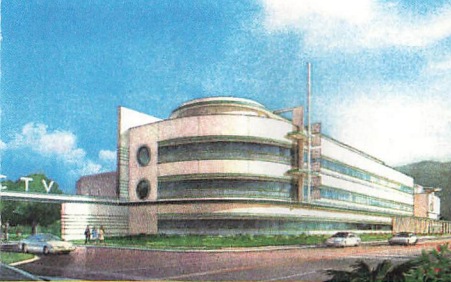


Winnie the Pooh and friends charm visitors to Disneyland Paris in the Pooh Stage Show.

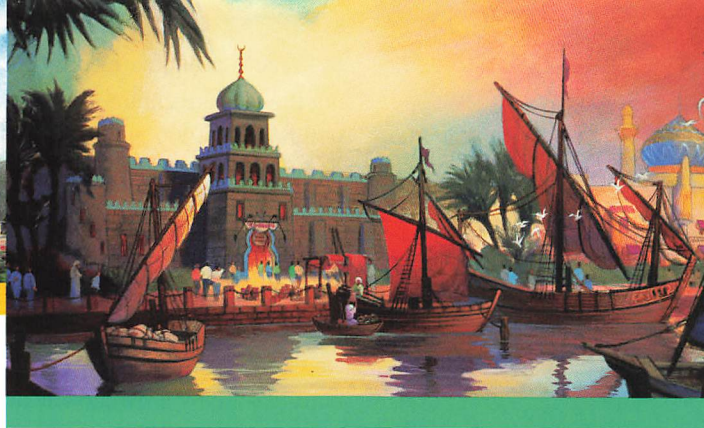
Disneyland Paris celebrates spring with the Festival of Flowers.







The design for KABC-7's new Glendale home.



Tokyo DisneySea, with its Arabian coast district, is scheduled to open in the fall of 2001.



The Celebration Hotel, due to open this year in Celebration, Florida.

## WALT DISNEY IMAGINEERING

Capturing the spirit of a very full year, Walt Disney Imagineering printed T-shirts for an employee event that read: "The Busiest Place On Earth." And indeed it was for Imagineering, the division that began in the 1950's with the invention of a theme park called Disneyland.

Among its major achievements in 1998: creating Disney's Animal Kingdom theme park, the Disney Magic cruise ship, the Port Canaveral terminal and the first DisneyQuest; developing the new Tomorrowland in Anaheim and the Castaway Cay island in the Caribbean, and rebuilding the 45,000-seat Edison International Field, home of the Anaheim Angels.

In 1999, WDI continues to be a busy place, as Imagineers work on a wide range of Disney attractions and resorts that will open around the world.

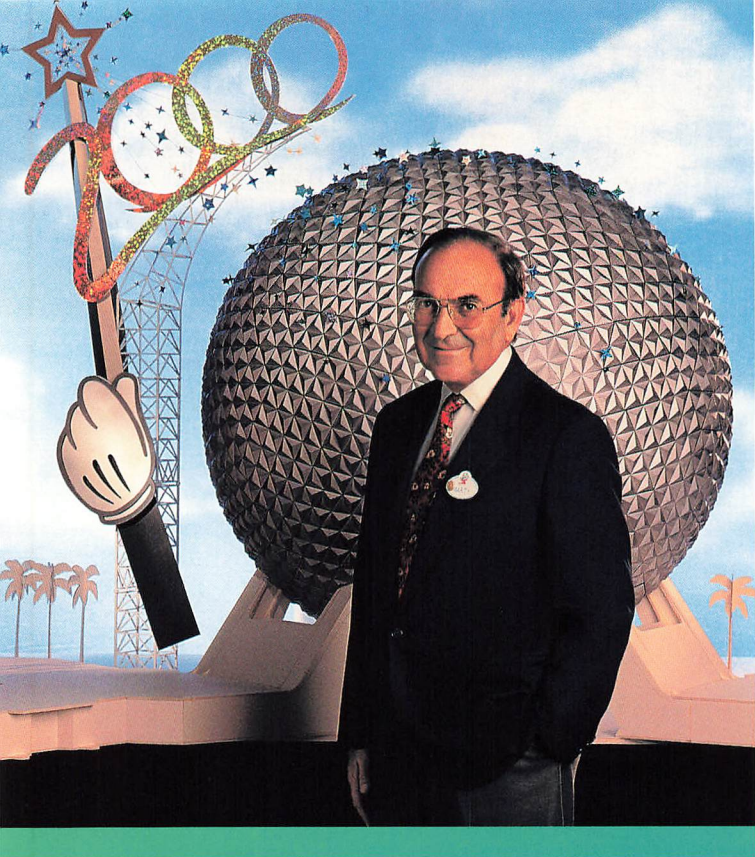
In Anaheim, they are building Disney's California Adventure, Disney's Grand Californian Hotel and the new Downtown Disney, all scheduled to open in 2001. In conjunction with this massive project, Imagineers and the City of Anaheim are transforming the Anaheim Resort area adjacent to Disneyland into a fully landscaped, tree-lined, guest-friendly "garden district."

In Japan, Imagineers are working on a second park, Tokyo DisneySea. Capturing the wonder, legend, mystery and adventure of the watery world, Tokyo DisneySea is scheduled to open in fall 2001, and will include a Venetian-style hotel along its waterways.

In Florida, Imagineers are involved in the continued development of the city of Celebration, where the Celebration Hotel, featuring the wood frame look of the 1920's, will open this year. At Walt Disney World, WDI is creating Disney's Winter Summerland, a miniature golf course with "polar" putting greens, and is partnering with Walt Disney Attractions to create a series of events, activities and icons related to the Millennium Celebration at Epcot.

Disney Wonder, Disney Cruise Line's second ship, will be christened in 1999, employing art nouveau design to recall the luxury and elegance of the classic transatlantic liners. A bronze sculpture of Ariel the mermaid will greet guests as they board.





**Martin A. Sklar**

Vice Chairman and Principal Creative Executive,  
Walt Disney Imagineering

In France, a number of projects are being developed, including the 3-D adventure *Honey, I Shrunk The Audience*, which will open in 1999 at Disneyland Paris, and the expansion of the Disney Village entertainment, shopping and dining area.

In New York, Imagineers are working with ABC to create Times Square Studios, helping to design the new home of *Good Morning America* with a 125-foot-long video and message billboard that will communicate to the thousands of daily passersby at Broadway and 44th Street. Two building projects at the Burbank corporate headquarters also show the WDI project management touch — the Frank G. Wells Building, designed by Robert Venturi, which opened in 1998, and the 10-story Riverside Building, designed by Aldo Rossi and scheduled for completion in 2000.

The new Asia region of Disney's  
Animal Kingdom takes shape.

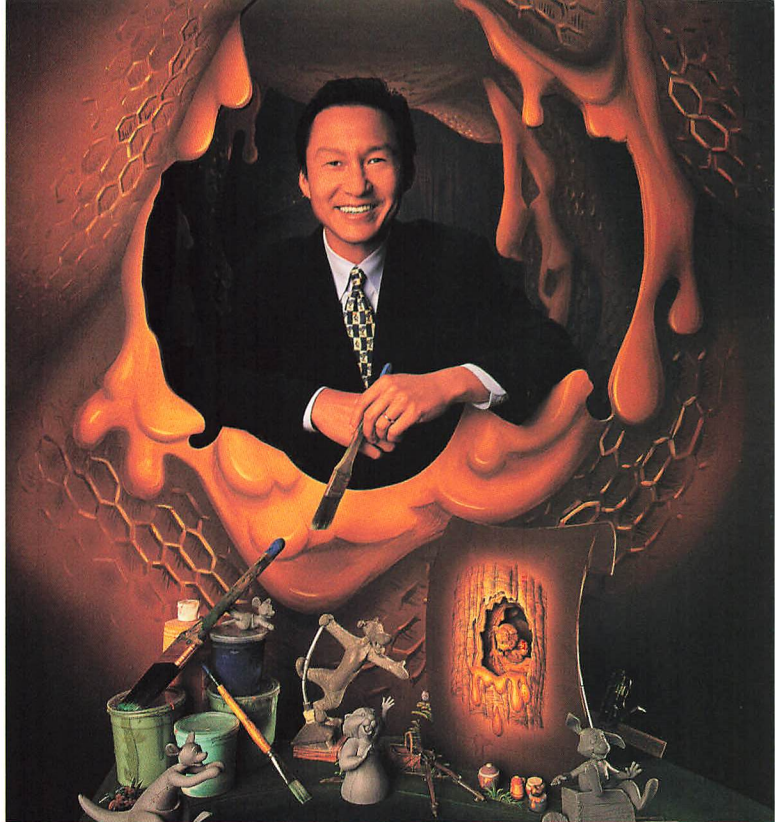


Disney Wonder, the second ship for  
the Disney Cruise Line, is under  
construction in Italy.





Imagineering's Research and Development staff continues to contribute significantly to an array of Disney businesses, such as ABC News, which is benefiting from R&D's participation in the design of *Nightline*'s new Digital News Facility, and Disney Regional Entertainment, for which R&D has invented proprietary interactive game technologies. One major R&D initiative is aimed at the reinvention of home entertainment with a new digital medium that combines conventional television, computers and the Internet.



**Kenneth P. Wong**  
President, Walt Disney Imagineering

Grizzly Peak will rise over Disney's California Adventure at Disneyland Resort when the new theme park opens in 2001.



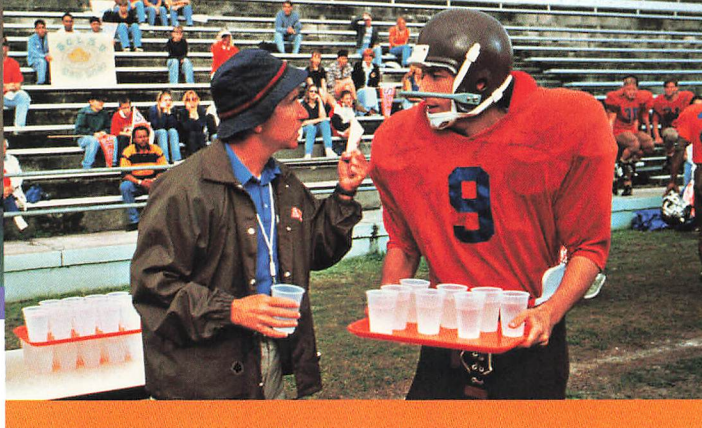
ABC's Times Square Studios will be the new home for *Good Morning America*.







The Steadfast Tin Soldier is one of six new sequences in *Fantasia 2000*.



Adam Sandler in the breakout comedy hit, *The Waterboy*.



Pooh & Friends, a new line of figurines from Walt Disney Art Classics.

## CREATIVE CONTENT

### FILMED ENTERTAINMENT

In 1998, the film group achieved four major hits: *Mulan*, Disney's 36th full-length animated feature, reinforced the company's preeminent position in animated films, achieving a domestic box office of \$121 million.

Touchstone's *Armageddon*, which was released in July and went on to earn nearly \$500 million at the worldwide box office, set a new mark as the highest-grossing live-action movie ever released by the company.

*Good Will Hunting*, in addition to winning Academy Awards® for best supporting actor (Robin Williams) and best screenplay (Matt Damon and Ben Affleck), became Miramax's all-time box office champ with \$138 million in the U.S. alone. This success, combined with such other films as *Scream 2*, which grossed \$101 million at the U.S. box office, and *Halloween: H20*, with \$55 million, catapulted Miramax to its best year ever.

In November, Touchstone's *The Waterboy* enjoyed the biggest opening for a comedy in Hollywood history, as the modestly budgeted film grossed \$39 million during its opening weekend, which was also the biggest opening ever for a live-action film from The Walt Disney Studios.

During the holiday season, the studios offered three major films: *Enemy of the State*, starring Wil Smith and Gene Hackman; the

Disney event film *Mighty Joe Young*, and *A Bug's Life*, which opened to \$46.1 million, an industry record for Thanksgiving weekend.

As part of a long-range plan, the Buena Vista Motion Pictures Group is implementing a strategy of reducing the number of non-Disney-branded live-action films it will produce each year, with the goal of reducing overall financial exposure while increasing corporate return on investment.

Coming in the spring and summer are such live-action films as *The Other Sister*, a bittersweet comedy about a family dealing with a mentally challenged daughter's desire for greater independence, directed by Garry Marshall (*Pretty Woman*) and starring Diane Keaton; *My Favorite Martian*, featuring Christopher Lloyd, Jeff Daniels and Daryl Hannah in an update of the classic TV comedy about a stranded Martian, and *The 13th Warrior*, a sweeping epic starring Antonio Banderas, based on Michael Crichton's *Eaters of the Dead*.

Slated for the 1999 fall and holiday season are *Inspector Gadget*, starring Matthew Broderick in a live-action version of the popular cartoon series, and an as-yet-untitled film starring Al Pacino and directed by Michael Mann (*Heat*) about a tobacco company executive who exposes his employer's fraudulent research to the media.



Top: Matthew Broderick stars as the human Swiss Army knife, Inspector Gadget, who has thousands of tricks up his sleeves.

Bottom Left: Christopher Lloyd stars in *My Favorite Martian*, a feature-length update of the classic television comedy, coming this spring.

Bottom Right: In *The Other Sister*, Juliette Lewis plays a mentally challenged young woman in a touching comedy from the director of *Pretty Woman*.







**Joseph E. Roth**  
Chairman, The Walt Disney Studios

Miramax's 1999 slate includes *Killing Mrs. Tingle*, a dark comedy about a high school valedictorian and her spiteful teacher, written and directed by Kevin Williamson, creator of the *Scream* series and TV's *Dawson's Creek*; *Princess Mononoke*, an animated folktale directed by Hayao Miyazaki, whom some call "the Walt Disney of Japan," and featuring the voices of Gillian Anderson, Minnie Driver and Claire Danes, and *The Talented Mr. Ripley*, a tale of suspense and tragedy set in 1950's Italy co-produced with Paramount Pictures and directed by Anthony Minghella, who won an Oscar for *The English Patient*.

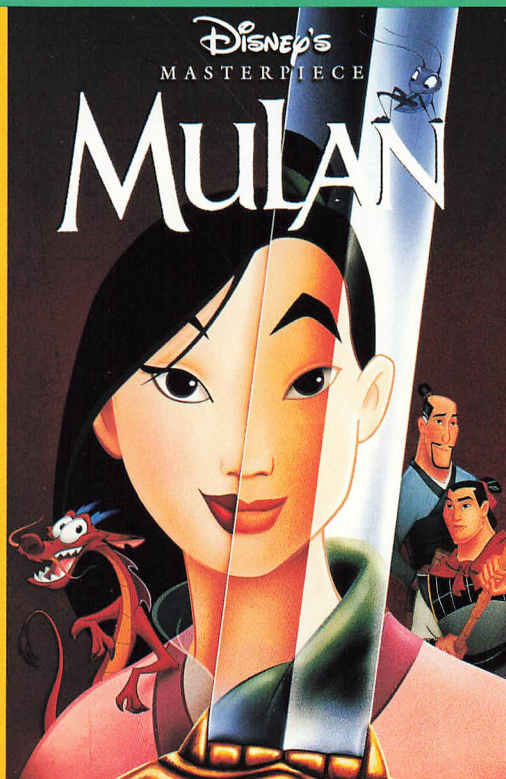
## *BUENA VISTA INTERNATIONAL*

Buena Vista International was on target to equal last year's industry-leading box office numbers as 1998 drew to a close, becoming the only film distribution company ever to hit the \$1-billion mark at the box office four years in a row.

*Armageddon* was the biggest international hit of the year for BVI, exceeding \$230 million in box-office gross even before entering the important Japanese market. *Hercules* and *Air Force One* were also overseas hits, generating combined grosses of nearly \$300 million. Also adding to BVI's record-breaking year were *Flubber*, *George of the Jungle*, *Six Days Seven Nights*, *Face/Off* and *Mulan*, which had grossed \$63 million internationally before being released in Europe.

This summer, Antonio Banderas headlines the action-adventure saga *The 13th Warrior*.

*Mulan*, Disney's 36th full-length animated feature, was embraced by both domestic and international audiences.





BVI looks to continue its strong performance in 1999, with late '98 releases such as *The Parent Trap*, *Snake Eyes* and *Mulan* expected to continue playing well into the new year. *Enemy of the State* will reach European markets in January, *A Bug's Life* in February and *Mighty Joe Young* and *My Favorite Martian* in the summer.

By fall, *Instinct*, *Runaway Bride*, *Bringing Out the Dead* and *End of Days* will be in theaters around the globe. *Tarzan*® opens in Latin America in July, in Asia in October and in Europe over the holiday season.

## B UENA VISTA HOME ENTERTAINMENT

In 1998, for the 10th straight year, Buena Vista Home Entertainment maintained its position as the industry leader in worldwide home entertainment while continuing to break its own records in both the sell-through and rental markets.

In the sell-through market, BVHE benefited from the growing consumer demand for made-for-video movies, a category it pioneered in 1994. The group launched *Beauty & the Beast: Belle's Enchanted Christmas* and *Pocahontas II: Journey to a New World*, which together shipped more than 15 million units — a record for this category in a single fiscal year. Then, in October, BVHE released the sequel to the most successful animated film of all time — *The Lion King II: Simba's Pride*.

Disney movies go digital with new releases in the DVD format.



BVHE continues to hold 17 of the top 25 spots on the U.S. all-time best-selling videos list. In 1998, key worldwide sell-through initiatives included successful re-releases of *The Little Mermaid* (North America), *Lady and the Tramp* (North America, the UK, Italy), *Peter Pan* (Spain) and *Cinderella* (Europe). In Japan, BVHE released the country's number-one-selling videocassette of all time, *Princess Mononoke*, which sold more than four million units.

BVHE's success went beyond animation, as *George of the Jungle* and *Flubber* became two of the top sell-through videos of 1998. In 1999, BVHE expects *101 Dalmatians* to become another popular overseas live-action release.

In the rental market, BVHE expanded its innovative revenue-sharing program, which entails the sharing of rental revenues between retailers and the studio, resulting in greater availability of popular titles. Under this new structure, *Good Will Hunting* was launched and went on to become one of the industry's most successful rental titles ever. Later in the year, *Scream 2* also moved near the top of the list, giving BVHE ten of the top 25 rental titles of all time.

BVHE also introduced its offerings to the DVD market, including the simultaneous VHS/DVD release of *George of the Jungle* and top-sellers *The Rock* and *Scream*.

## W ALT DISNEY NETWORK TELEVISION

*Smart Guy*, the half-hour comedy series about a 12-year-old genius who goes to high school, completed its second season as one of the top-rated programs on The WB and continued a successful run on the international Disney Channels. In addition, *The Irish in America: Long Journey Home*, a six-hour documentary, was a critical and ratings success on PBS.

Figure skating champion Michelle Kwan agreed to star in at least four specials on her way to the 2002 Winter Olympics in Salt Lake City. The first of the four, *Reflections on Ice: Michelle Kwan Skates to the Music of Disney's Mulan*, aired in 1998, with another due in 1999.

Some of Hollywood's most noted directors will participate in an end-of-the-century retrospective produced by Walt Disney Network Television. The series will air on Showtime throughout 1999 and will consist of feature-length documentaries noting the influences that have shaped society during the 20th century. Noted directors Norman Jewison, Barry Levinson, Garry Marshall, Gregory Nava, Robert Townsend and Robert Zemeckis will participate in this ambitious project.



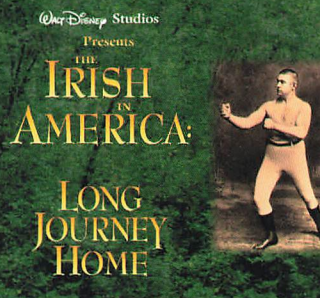
Top Left: Josh Charles and Peter Krausen star in ABC's new Tuesday night show, *Sports Night*.



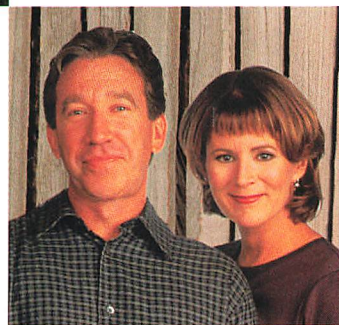
Bottom Left: The cast of *Felicity*, The WB's critically acclaimed new series about a young woman's first year at a New York City university.



Selma Blair stars as Zoe Bean in *Zoe, Duncan, Jack & Jane* debuting in January on The WB.



*The Irish in America: Long Journey Home* chronicled the story of Irish-American immigrants in a six-hour PBS documentary series.



The long-running hit series *Home Improvement* anchors ABC's Tuesday night line-up.



## TOUCHSTONE TELEVISION

The long-running comedy hit *Home Improvement*, now in its eighth season on ABC, remains the network's top-rated sitcom. The Tim Allen series will celebrate its 200th episode in 1999.

*Boy Meets World* remains the centerpiece of ABC's popular TGIF Friday night line-up. New for the 1998-99 season is *Sports Night*, a half-hour series set in the world of an ESPN-like sports news program. The show was created by Aaron Sorkin, the writer of *A Few Good Men*, and is produced by Touchstone and Imagine Television.

Also from Touchstone and Imagine is *Felicity*, an hour-long drama that follows the trials and tribulations of a young girl's first year of college in New York City. The show airs Tuesday nights on The WB.

For the mid-season schedule this year, Touchstone will produce *Zoe, Duncan, Jack & Jane*, an ensemble sitcom that explores the lives of four Manhattan teenagers, to air on The WB. Another production from Touchstone and Imagine is *The PJ's*, a clay-mation series from Will Vinton Studios. *The PJ's* follows the lives of several families living in an inner city housing project. Eddie Murphy serves as executive producer



Disney's *Hercules* joined the *One Saturday Morning* line-up this season.

MouseWorks shorts will appear in theaters and on television, bringing Disney's classic characters to a whole new generation.

and is the voice of the lead character on the series, which will air on Fox.

## WALT DISNEY TELEVISION ANIMATION

Walt Disney Television Animation experienced significant growth and heightened visibility in 1998, as production increased on both television series and made-for-video films. It was also the year the unit received its first Academy Award nomination, for the animated short *Redux Riding Hood*.

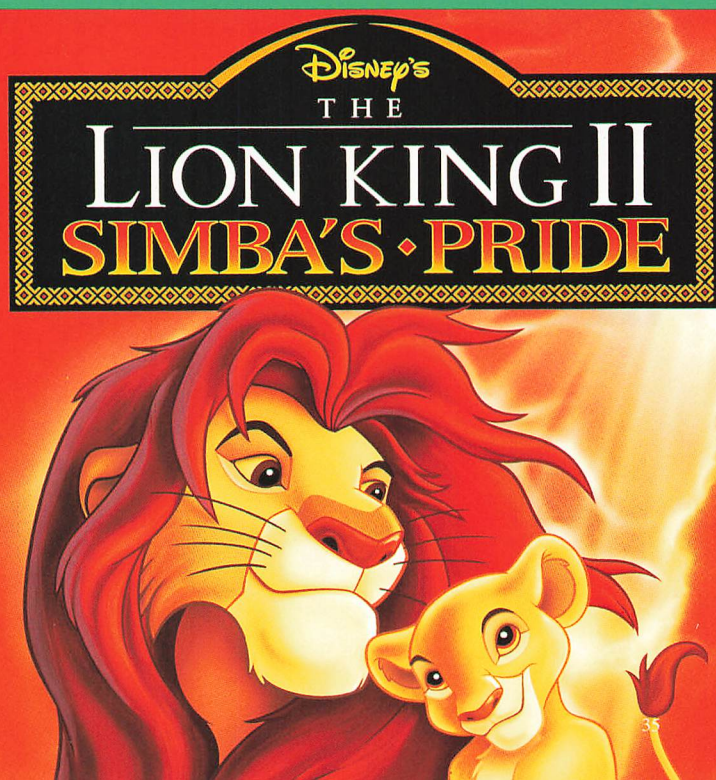
New children's shows, *Recess* and *Pepper Ann*, joined Disney's *Doug* on ABC. Together with the acclaimed overall environment of Disney's *One Saturday Morning*, these series propelled the network to the top of the Saturday morning children's ratings for the first time since 1990. In September, Disney's *Hercules* joined the Saturday line-up, in addition to appearing Monday through Friday in syndication.

Walt Disney Television Animation produced three new Disney Video Premieres for release — *Beauty & the Beast: Belle's Enchanted Christmas*, *Pocahontas II: Journey to a New World* and *The Lion King II: Simba's Pride*. More than a dozen additional features for the home video market are now in active production, among them *Disney Presents the First Doug Movie Ever*, *Mickey's Once Upon a Christmas* and *Lady and the Tramp II: Scamp's Adventure*.



Disney's *One Saturday Morning* shows on ABC were the top-rated kids' block.

*Simba's Pride* debuted on video and, by year's end, was well on its way to becoming one of the most successful made-for-video movies ever.





1999 brings *Winnie the Pooh, a Valentine for You*, the fourth in a series of holiday specials on ABC. Walt Disney Television Animation also is producing MouseWorks cartoon shorts starring Mickey, Minnie, Donald, Pluto and Goofy. This important initiative will help keep the Disney classic characters vital and fresh for a whole new generation of fans. Selected shorts will be seen with Disney theatrical and home video releases before they appear in a regular series on ABC beginning this spring.

## BUENA VISTA MUSIC GROUP

In January, all of Disney's recorded music businesses were brought together to form a new group. For the first time, Hollywood Records, Walt Disney Records, Mammoth Records, Lyric Street Records and Walt Disney Music Publishing will be managed within a single cohesive organization. To head up this new unit, Bob Cavallo, a music industry veteran, was hired as BVMG's chairman.

The new management's first release, Fastball's *All the Pain Money Can Buy*, sold more than a million units, becoming the best-selling album ever released by an artist developed by Hollywood Records. Another hit for Hollywood Records was Jennifer Paige's single, *Crush*, which reached the top 10 in the fall. The Squirrel Nut Zippers' album *Perennial Favorites* went gold for the Mammoth label, as did the *Mulan* soundtrack for Walt Disney Records.

Lyric Street, the Nashville-based country label, issued its first album in June, *Stepping Stone*, by Lari White. The single, *Stepping Stone*, reached the top ten on country radio playlists.

*Classic Disney Volume I: 60 Years of Magic* from Walt Disney Records won the National Association of Record Merchants award as the best-selling children's album of the year.

In October, BVMG announced the creation of Hollywood Records Latin to focus on the rapidly growing Latin music market. Los Lobos has been signed to the new label, and the L.A.-based band plans to release a new album early this year.

The music group's key 1999 releases include the soundtracks from *A Bug's Life*, *Tarzan*® and *Fantasia 2000*, along with a Lyric Street release by country star Aaron Tippin; *Tigger Mania*, featuring Peter Frampton, and *Mannheim Meets the Mouse*, featuring Mannheim Steamroller.

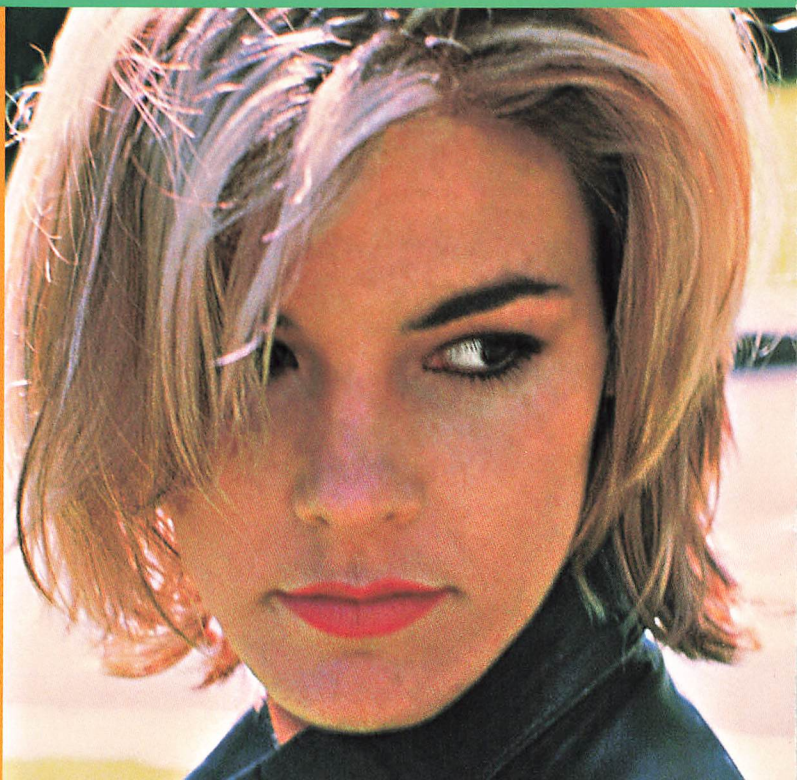
BVMG will also oversee the creation of two symphonies commissioned to celebrate the millennium. Michael Torke will compose a symphony that examines the past half century, while Pulitzer prize-winning composer Aaron Jay Kernis will write a choral symphony that looks to the future. The millennium symphonies will premiere in the fall.

Jennifer Paige scored a top-ten hit with her song *Crush*.



Fastball's first album, *All The Pain Money Can Buy*, went platinum for Hollywood Records.

Nydia Rojas will appear on Hollywood Records Latin, a new label aimed at the rapidly growing Hispanic music market.





WALT DISNEY  
PICTURES PRESENTS  
**FANTASIA**  
2000

*Fantasia 2000* will fulfill Walt Disney's dream that the film would be refreshed and revised over the years.



*The Lion King* on Broadway has played to standing-room-only crowds for more than a year at The New Amsterdam Theatre.

WALT DISNEY  
PICTURES PRESENTS  
**TARZAN**

*Tarzan*® will give Edgar Rice Burroughs' classic adventure story an animated retelling.

## WALT DISNEY FEATURE ANIMATION

Walt Disney Feature Animation had a strong 1998, with two highly successful films, and is poised for 1999 with three diverse and distinct new animated productions.

In June came the release of *Mulan*, the first Disney animated film to take place in Asia, telling the ancient Chinese tale of a young woman who disguises herself as a man in order to join the army and save the life of her ailing father. Michael O'Sullivan of *The Washington Post* wrote of *Mulan*, "It has all the epic scale of *Lawrence of Arabia* combined with the emotional virtuosity of *Bambi*," while *Time* magazine's Richard Corliss wrote that it "recalls the color experiments of *Fantasia* as much as the delicacy of Chinese graphic art... what's terrific about *Mulan* is its reaching for emotions that other movies run from: family love and duty, personal honor and group commitment, obedience and ingenuity. Nice notions for kids to think about."

Then came the Thanksgiving release of *A Bug's Life*, the second computer-animated production to come from Disney's long-term partnership with Pixar. *A Bug's Life* was hailed by Jim Svejda of CBS Radio as "a masterpiece: Disney's best film since *Beauty and the Beast*. An astonishing achievement." *Newsweek*'s David Ansen advised readers, "If you want to see the giddiest, most inventive family movie of the year, you're going to have to look under a rock."

Coming this June is *Tarzan*®. The magic of Disney animation, combined with dazzling new production techniques, will bring this classic to the screen as it has never been seen before. In the film, we follow Tarzan® from his discovery by Kala, a female gorilla who finds the orphaned human baby in a tree house. As Tarzan® matures, he meets the unique challenges of growing up in an animal world while wondering why he is so different from those around him. Finally, with Jane at his side, he realizes that his home is in the jungle with the gorilla family he loves. *Tarzan*® features the voice talent of Minnie Driver, Glenn Close and Rosie O'Donnell, and original songs composed and performed by Phil Collins.







**Roy E. Disney**

Vice Chairman, The Walt Disney Company, and  
Chairman, Walt Disney Feature Animation

For Thanksgiving comes *Toy Story 2*, the sequel to the landmark 1995 computer-animated film produced by Pixar. This time around, the toys have to rescue Woody from a toy collector before Andy comes back from summer camp. Tom Hanks and Tim Allen reprise their roles as Woody and Buzz Lightyear. Don Rickles, John Ratzenberger, Jim Varney and Annie Potts also return to lend their voices to the movie.

Almost six decades after *Fantasia*'s introduction in 1940, its successor will premiere during the holiday season. *Fantasia 2000* offers six new segments, which will be integrated with three of the original sequences. The score is performed by the Chicago Symphony Orchestra under the direction of maestro James Levine. As with the first *Fantasia*, *Fantasia 2000* promises to push the envelope of animated entertainment. The film will be premiered in December at Carnegie Hall in a special presentation during which the music will be performed live with maestro Levine conducting the London Philharmonia Orchestra. *Fantasia 2000* is being supervised by Roy E. Disney, chairman of Walt Disney Feature Animation, who was a captivated 10-year-old at the premiere of the original film.

*Tarzan*® will swing into theaters next summer, featuring songs by Phil Collins and the voices of Glenn Close, Rosie O'Donnell and Minnie Driver.

The toys are back in *Toy Story 2*, with Tim Allen and Tom Hanks reprising their roles in this sequel to 1995's most popular movie.





In November, *The Lion King* marked its first anniversary on Broadway after having won six 1998 Tony Awards, including best new musical. It made its international debut in Tokyo in December and will reach Osaka and London later in 1999.

*Beauty and the Beast* will complete its fifth year on Broadway this April, and the national tour is now in its fourth year. The musical also continues to play to audiences around the world — in Buenos Aires, Nagoya, Sapporo, Stuttgart and London. The British production received the 1998 Olivier Award for best new musical.

*The Hunchback of Notre Dame* makes its world premiere in Berlin this June. The production features music from the animated film as well as new songs by Alan Menken and Stephen Schwartz. Tony Award and Pulitzer Prize-winner James Lapine will direct and author the script for the musical.

Walt Disney Theatrical Productions is also working on the development of *Elaborate Lives: The Legend of Aida*, with songs by the *Lion King* team of Tim Rice and Elton John.



**Peter Schneider**  
President, Walt Disney Feature Animation and  
Walt Disney Theatrical Productions

*Fantasia 2000* will feature six completely new sequences, plus three restored segments from the original film.

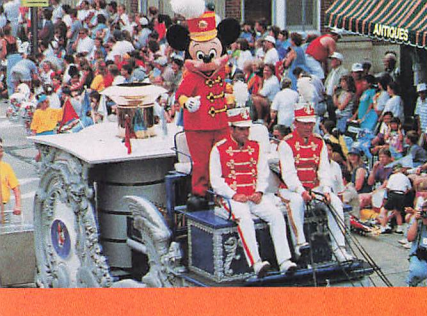
Julie Taymor receives the Tony Award for Best Director of a musical for her work on *The Lion King*.



Pop star Toni Braxton stepped into the role of Belle in the long-running Broadway production, *Beauty and the Beast*.



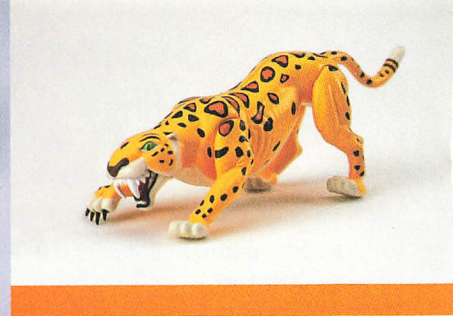




The Spirit of Mickey was celebrated with Hometown Parades in four U.S. cities during the summer.



Pooh-themed Mini Bean Bag Plush toys tapped into the growing collectible toys market.



1999 looks to be the year of *Tarzan*® with a broad line of consumer products tied to the animated film.

## DISNEY CONSUMER PRODUCTS

In 1998, Disney Consumer Products continued to offer a dazzling array of toys, books, apparel, magazines, computer software, animation art and collectibles to Disney fans around the world. What's more, special events were produced to bring Disney characters directly to the children and adults who love them.

Winnie the Pooh's global appeal reached new heights. The annual Pooh Friendship Day was celebrated in New York City, and Pooh-themed events were held in Canada, China and Japan. The "Pooh & Friends 100 Acre Holiday" in Osaka alone attracted more than 300,000 people in just a month.

Five hundred new books and 11 magazines featuring Pooh delighted readers of all ages, and even more new titles will appear in 1999. An innovative line of construction toys from the LEGO Group based on Pooh and his friends also will be introduced worldwide.

At The Disney Store, the popularity of Pooh continues to be strong. For example, Pooh maintains his number-one status in the Disney's Mini Bean Bag Plush line of collectible toys — the most successful product line in Disney Store history. In North America alone, 80,000 people collect these toys. The bear of little brain has also created a stir among collectors with a line of figurines called Pooh & Friends from Walt Disney Art Classics. And, during the

holidays, one of Pooh's best friends proved particularly popular with the Bounce Around Tigger toy.

Mickey Mouse traveled the globe last year. Special events feted him at parks, shopping malls and other sites worldwide, including the Canadian National Exhibition in Toronto. In November, Mickey was on hand at Disneyland Paris for the fifth annual World Rapid Chess Championship, which encourages youngsters to take up this challenging game. He was also featured at the Children's Summit in May, where 600 young people from around the world met to learn about each other and discuss their collective future. In Tokyo, a huge entertainment-retail event featuring Mickey Mouse will make its debut this summer.

The stars of Disney's animated hit *Mulan* were welcomed into homes as well as movie theaters in 1998, thanks to a strong line of products based on the film. *Mulan* fashion dolls by Mattel enjoyed strong sales in North America. Four *Mulan* titles from the Disney Children's Book unit of Buena Vista Publishing held spots on the *Publisher's Weekly* best-seller list, and the *Mulan* Classic Storybook stayed in the top 10 for three months.

In 1999, Disney Licensing will swing into action with major support for *Tarzan*®. The broad line of products for boys and girls includes apparel, home furnishings, gifts, plush toys, dolls and a full line of action figures based on the high-spirited adventure.





Five hundred new books and 11 magazines devoted to Winnie the Pooh were published around the world.



Hyperion Books hit the bestseller lists with *A Monk Swimming*, *Pure Drive* and *Don't Sweat the Small Stuff*.

As it entered its second decade of operation, The Disney Store opened 47 locations worldwide and enjoyed a significant overall increase at locations that have been open more than a year. Nearly 700 stores were in business as 1998 ended, with continued international expansion planned. In addition, there is the “virtual” Disney Store Online, which offers consumers the convenience of shopping at home.

In Hollywood, the architecture and history of the newly refurbished El Capitan Theatre are the inspiration for a Disney Store that opened in November adjacent to the entertainment landmark on famed Hollywood Boulevard. In 1999, a major store will debut on Chicago’s Michigan Avenue. New York City’s massive Harlem USA project will also include a Disney Store.

ESPN-The Store capped its first year by adding sites in Torrance and Santa Ana, California. Six more stores throughout the U.S. are planned for 1999. Disney Licensing has introduced a line of ESPN apparel and merchandise sold through ESPN shops in selected Sears stores and other retail outlets. In addition, sports fans can shop directly on the web at ESPN.com.

*ESPN-The Magazine* debuted in 1998 and quickly achieved subscriber and newsstand circulation of 700,000. It is expected to reach a million subscribers by 2000.

Also new to the publishing world was Jump at the Sun, a line of children’s books from the Buena Vista Publishing Group that focuses on themes about black culture. Among its contributors: Pulitzer Prize-winning author Toni Morrison (*Beloved*) and actress Della Reese (*Touched by an Angel*).

Hyperion, Disney’s adult publishing imprint, set a division record with 15 books on the best-seller list in 1998, including Steve Martin’s *Pure Drive*, Malachy McCourt’s *A Monk Swimming*, George Carlin’s *Braindroppings* and the durably popular *Don’t Sweat the Small Stuff...and It’s All Small Stuff* by Dr. Richard Carlson.

Around the world, Disney’s publishing efforts bring entertainment to families in more than 100 countries and 37 languages ... from Italy, where *Topolino* magazine reaches more than three million people each week, to Japan, where a remarkable 87 percent of Japanese families with young children own one or more Disney books.

Through its licensees, the Disney Children’s Book group reached hundreds of millions of consumers with its publishing program for *A Bug’s Life*. In 1999, Disney Children’s Books will release a developmental preschool Winnie the Pooh package that helps parents pick age-appropriate books for youngsters. In addition, the Winnie the Pooh “First Reader” paperback series in the U.S. will add 12 new titles for beginners. Meanwhile, a large-scale publications program featuring *Disney’s Doug* will be launched in Europe.





**Barton K. Boyd**  
Chairman, Disney Consumer Products Worldwide

The facade of ESPN-The Store's first outlet, at the Glendale Galleria in California.



A line of ESPN-themed apparel will be available at six ESPN stores by the end of 1999.



ESPN-The Magazine debuted last March and quickly found a loyal following, with circulation topping 700,000 by year's end.

Magazines published by Disney remain among the top-selling titles in their respective categories. *FamilyFun* continues to enjoy strong growth, with each issue now reaching more than two million readers.

*Discover*, one of the most respected science magazines, presented the ninth annual Discover Awards in June. This March, the magazine will be repositioned and relaunched to reach an even wider and more diverse audience.

Thanks to engaging educational titles from Disney Interactive, the company remains a leader in the children's and family software market. In 1998, the division introduced two new titles in its award-winning Disney Learning Series: *ReadingQuest With Aladdin* and *Adventures in Typing with Timon and Pumbaa*. It also topped the charts with the release of *Disney's Mulan Animated StoryBook*, rated the best-selling children's education software product by *PC Data*. *Disney's Action Game*, featuring *Hercules*, became Disney's most successful video game ever in Europe.

In 1999, the division aims to be a leader in the growing PC marketplace in learning, creativity and games. Disney Interactive also plans to play a major role in the rapidly

A *Bug's Life* line of products rolled out in the fall.

*Mulan* fashion doll by Mattel.



Disney Interactive brings the latest Disney characters to video platforms and PC's.



expanding Sony PlayStation and Nintendo N64 video game business worldwide. Among the new offerings: the *Tarzan*® Action Game for both the PlayStation and the PC, and a range of titles to be released for the holidays based upon Disney/Pixar's *Toy Story 2*.

In the learning category, multi-subject titles will feature Winnie the Pooh. The creativity category will add the long-awaited follow-up to Disney Interactive's award-winning *Disney's Magic Artist*.

Internationally, Disney merchandise and publications continue to entertain millions.

Japanese fans proved their love for Mickey Mouse once again as all 2,000 dolls in a new line of Mickey retro toys sold out in a single day. Mickey merchandise for adults steps forward in 1999 with the introduction of Mickey Japanesque, the first line of merchandise designed to suit the tastes of young adults in a country already known for trend-setting Mickey products.

Likewise, a fashion-forward range of women's apparel starring Mickey and Minnie will hit European boutiques in the spring, and The Disney Store will continue to deliver Disney fun and service to new neighborhoods with the opening of high-profile locations in Rome and London.



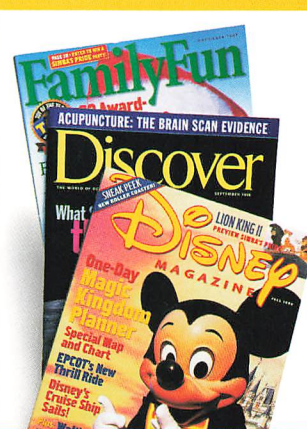
**Anne E. Osberg**  
President, Disney Consumer Products Worldwide

Disney publications are available in 37 languages in 100 countries.

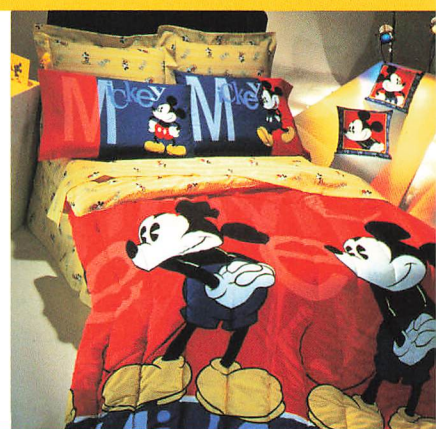
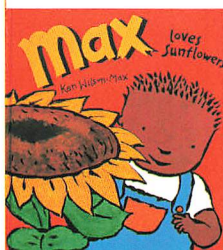
*Discover*, *Family Fun* and *The Disney Magazine* are top-selling magazines in their categories.



Disney Children's Books reaches millions of kids with its publications.



Jump at the Sun publishes books geared toward African-American children.



Everything old is new again with retro Mickey Mouse products that bring back the look of 1930's toys.





ESPN is the worldwide leader in sports news and programming.



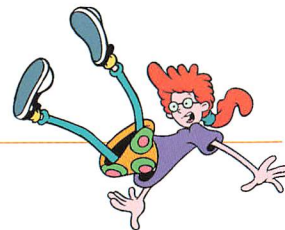
Funnyman Drew Carey continues to bowl audiences over on Wednesday night.



The stars of Buena Vista Television's *Honey I Shrunk the Kids*.



## BROADCASTING



### ABC TELEVISION NETWORK

In a challenging broadcast environment, ABC improved its primetime performance as the fall season began. This was due to the strength of such audience favorites as *The Drew Carey Show*, *Home Improvement*, *Dharma & Greg*, *TGIF* programs and *Monday Night Football*, plus such newcomers as the critically acclaimed *Sports Night* and *The Hughleys*, one of the top three new series on television among young adults. *TGIF* was also bolstered by the return of the Olsen twins in *Two of a Kind*.

As the season began, ABC received eight prime-time Emmys, more than any other network, including honors for outstanding drama series (*The Practice*) and three acting awards. Two of ABC's Emmys went to *The Wonderful World of Disney*, which is now the number-two primetime program among kids 2 to 11, second only to ABC's *Sabrina, The Teenage Witch*.

The network's unique Saturday morning programming block for children, *Disney's One Saturday Morning*, was top-rated among kids 2 to 11 last season. With three of the top five programs among young viewers, ABC's overall Saturday morning programming enjoyed a strong 21 percent increase in ratings from the prior year.

More Americans get their news from ABC — on television, radio and the Internet — than from any other source. Increasing its reach, ABC News consolidated its news-magazines and launched *20/20 Sunday*, which joined the Wednesday and Friday editions of the program.

ABC Daytime continues to hold its 21-year leadership position among women 18 to 49. *The View*, launched late in 1997, has sharply improved ratings in the key 11 a.m.-to-noon time period.

ABC Sports maintains its prominence. *Monday Night Football* continues to be the highest-rated regularly scheduled sports program on network television. In addition, through 2002, ABC will carry games of the College Football Alliance that will determine a national champion each year for the first time. Also beginning in 1999, ABC will own exclusive network rights to the National Hockey League, broadcasting its all-star game and key contests through the Stanley Cup finals.

### ABC-OWNED TELEVISION STATIONS

The TV stations group consists of 10 outlets reaching almost 24 percent of the nation's households. The group recently renewed the syndicated *Rosie O'Donnell Show* for four years on eight of its stations. In addition, seven stations will broadcast *The Oprah Winfrey Show* through the 2001–2002 season. The group continues to operate top-rated local news programs in New York, Chicago, Philadelphia, San Francisco and Houston.

In 1999, the owned TV stations group will take an important step toward going digital. The process began late last year, with stations in Los Angeles, Philadelphia and San Francisco broadcasting selected network programs in HDTV.

### ABC RADIO

The ABC Radio Division now owns 30 stations reaching 14 million Americans weekly. The division continued its rollout



of *Radio Disney*, which currently reaches about 40 percent of the U.S., with the goal of ultimately covering 70 percent of the country.

ABC Radio networks, with programs that include *ABC News*, *Paul Harvey News & Comment* and a strong urban lineup featuring Tom Joyner and Doug Banks, reach an estimated 144 million listeners weekly via 8,900 program affiliations on 4,400 stations.

## *B*UENA VISTA TELEVISION

BVTV is a leader in syndicated television, with hits that include *Live With Regis and Kathie Lee*, the off-network hit *Home Improvement*, the new John Landis-directed adventure *Disney's Honey, I Shrunk the Kids* and the successful game show *Win Ben Stein's Money*.

Buena Vista Television recently brought another powerful movie package to the market, *Buena Vista 5*. It offers 34 of the best films from Disney's theatrical labels.

This fall will mark the debut of a new two-hour animation block of programming, which follows in the tradition of *The Disney Afternoon*. The shows will air in more than 90 percent of the United States.

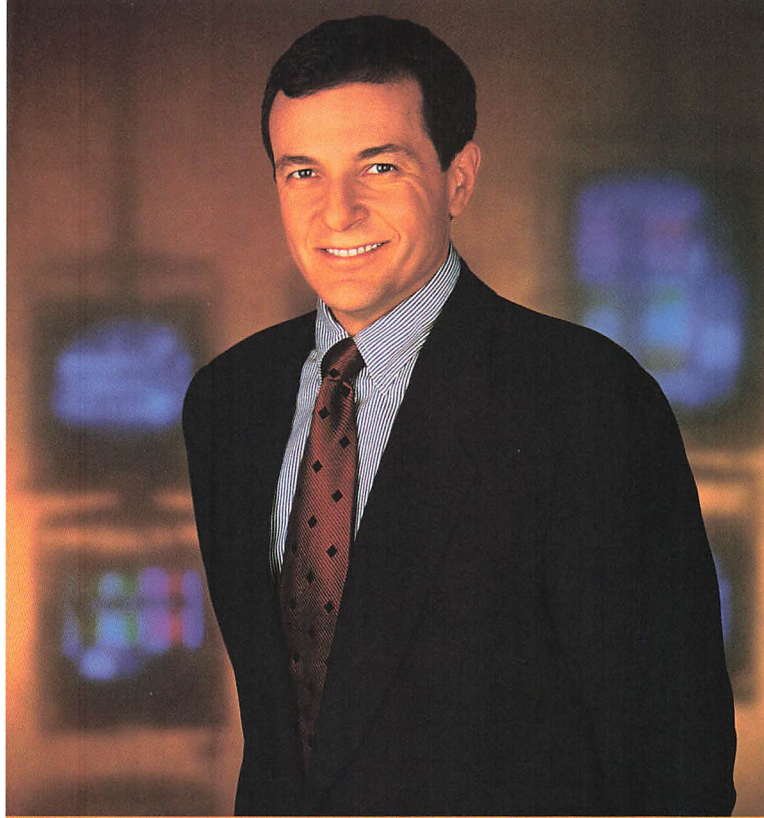
*Scream 2* and *Good Will Hunting* were among the top three pay-per-view movies of the year, continuing the success of 1997, in which BVTV had the top four titles. Breaking new ground in pay-per-view, last fall BVTV offered a concert featuring country singing star Trisha Yearwood.

In its first joint venture with ABC-owned stations, BVTV has worked with KTRK-TV in Houston to develop *The Debra Duncan Show*, hosted by the former Lifetime Television anchor. Since premiering in August, it has been a popular morning talk show in the Houston market with the potential to expand to national syndication in the future.

## *E*SPN

ESPN reinforced its position as the worldwide leader in sports through long-term rights agreements with the National Football League and the National Hockey League. It also launched two major brand extensions, *ESPN-The Magazine* and ESPNZone. ESPN's *Sunday Night Football* and ABC's *Monday Night Football* underpin TV's highest-rated sports programming.

ESPN now provides four domestic cable networks, regional syndication, 21 international networks, radio, Internet, retail, print and location-based dining and entertainment.



**Robert A. Iger**  
President, ABC Inc.

Right:  
Lisa McRee and Kevin Newman  
host ABC's *Good Morning America*.

Below left:  
*World News Tonight* anchor  
Peter Jennings.

Below right:  
Ted Koppel, host of *Nightline*.

Bottom:  
The anchors of *20/20*, which now  
airs on Sunday, Wednesday and  
Friday evenings.







Dylan McDermott and Lara Flynn Boyle head the cast of *The Practice*, which garnered the Emmy for best Drama of 1997-98.



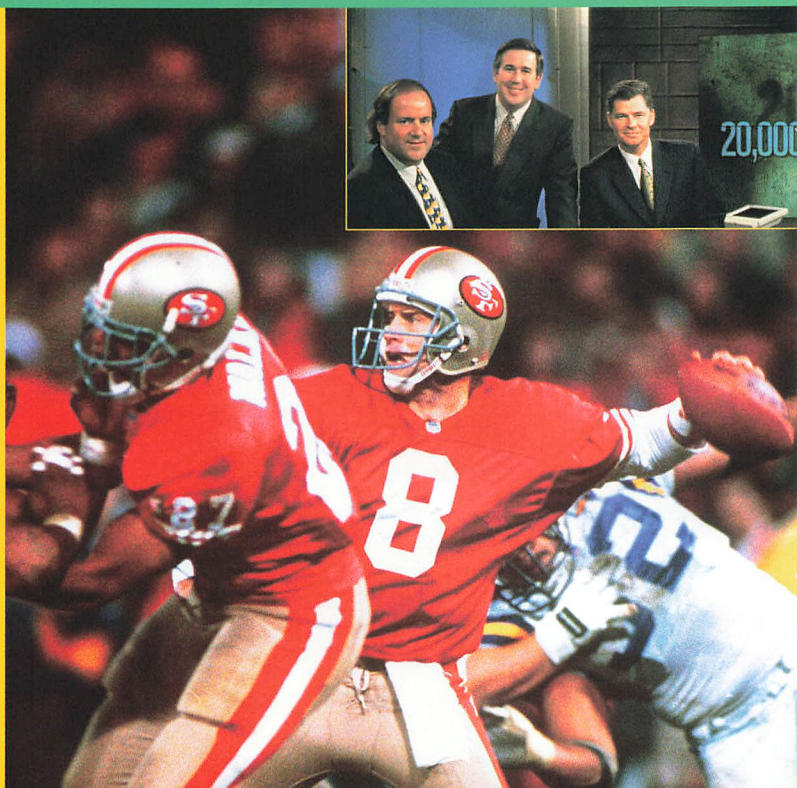
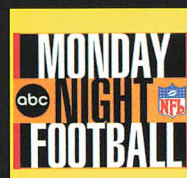
Debra Duncan's popular Houston morning show is being developed jointly by ABC station KTRK-TV and BVTV for possible national syndication.



Rosie O'Donnell's hit afternoon talk show has been renewed for four more years by the ABC-owned stations.

Regis Philbin and Kathie Lee Gifford returned for the 11th season of their popular morning show.

*Monday Night Football's* 29th season on ABC found the show among the top ten most watched shows on TV.

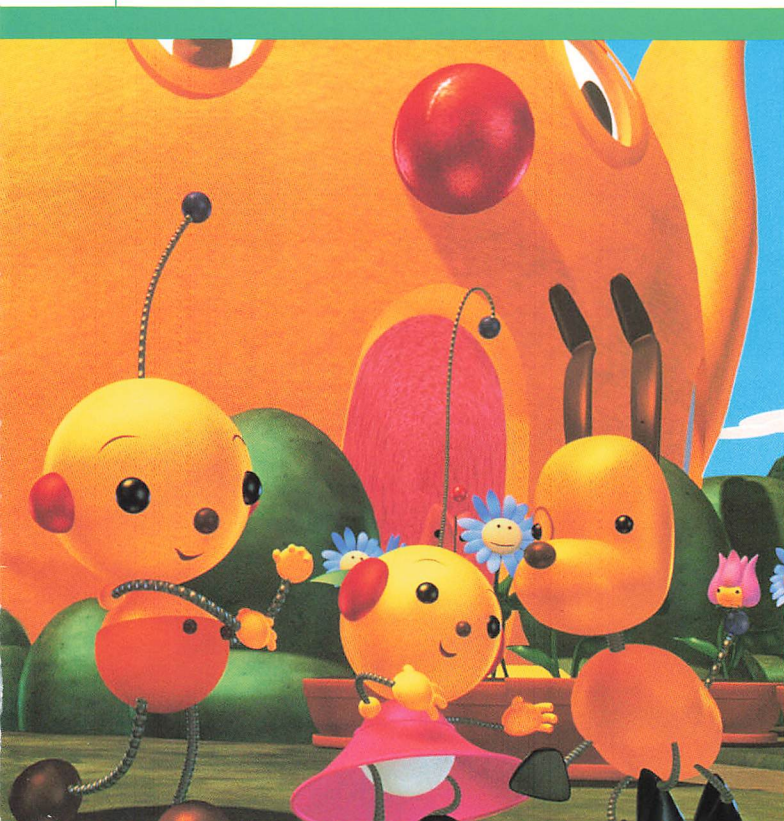






*Toon Disney*, Disney's all-animation channel, was launched in April.

*Rolie Polie Olie* is one of the original programming highlights exclusive to the Disney Channel.



ESPN, the flagship network, reaches more than 75 million homes. With the NFL, coverage of the McGwire-Sosa home run chase and *SportsCenter*, ESPN ended the fiscal year with its best quarterly ratings in five years.

In 60 months, ESPN2 was introduced into 61 million homes, reflecting faster growth than that of any other cable network. ESPN Classic reaches 15 million households, and ESPNEWS grew to reach 10 million homes.

ESPN Regional Television is the leading syndicator of college sports programming. ESPN International, serving more than 150 million households outside the U.S. in 20 languages, signed major multi-year programming agreements with Spanish League Football, the NBA, NFL and NHL. The X Games brand was extended overseas with two qualifier events staged in Thailand and Brazil. ESPN Taiwan was launched with customized programming and Mandarin and Taiwanese commentary.

ESPN Radio expanded to 24 hours, with ABC Radio's recent purchase of WMVP (now ESPN Radio 1000) in Chicago as its flagship station.

ESPN.com was redesigned, providing enhanced navigation to ESPN affiliate services NFL.com, NBA.com, WNBA.com and NASCAR.com. It remains the most popular sports site on the Internet.

### *CABLE TELEVISION (DISNEY/ABC CABLE NETWORKS)*

In addition to the company's wholly owned Disney Channel and Toon Disney, ABC has significant partnerships in other non-sports cable ventures. ABC owns 50 percent of Lifetime Television and holds significant minority positions in A&E Network, the History Channel and E! Entertainment Television.

### *DISNEY CHANNEL*

Designed for kids and families, the Disney Channel celebrated its 15th anniversary in April, serving nearly 43 million households (both pay and expanded basic) with its commercial-free offerings. The Disney Channel is now the second-highest-rated cable network on a total-day basis and one of the five highest-rated cable networks on a prime-time basis.

In 1998, the channel expanded its slate of original programming with the debut of kids' shows such as *Bug Juice*, *Rolie Polie Olie* and *The Famous Jett Jackson*, along with kids' and family prime-time fare *Brink!*, *Disney's Young Musicians Symphony Orchestra*, *The American Teacher Awards* and *'N Sync in Concert*. Movies were also featured, with *The Hunchback of Notre Dame* and *Air Bud* having premiered during the year.



## TOON DISNEY

Launched in April to more than six million subscribers, Toon Disney is the Disney Channel's 24-hour all-animation basic cable network. Toon Disney showcases the unmatched Disney library, with its 70 years of shorts, movies, series and specials.

## LIFETIME TELEVISION

Lifetime solidified and expanded its standing as "television for women" in 1998. It ranks number one in audiences of women 18 to 49 throughout the day, outpacing all other basic cable networks, and last year experienced its highest ratings ever — a 20 percent increase over 1997.

Its first spin-off, the Lifetime Movie Network, provides viewers with movies 24 hours a day. In August, the new network introduced three original prime-time series, *Any Day Now*, *Maggie* and *Oh Baby*.

The magazine series *New Attitudes* premiered in March and continues to increase its audience in its late-night time slot; an aggressive public affairs campaign for more high-quality child care took viewers' concerns to the White House and Capitol Hill.

The Lifetime sports division, which telecasts the Women's National Basketball Association, expanded in 1998 to include a women's team triathlon, a golf tournament for breast cancer awareness and a women's college basketball tournament.

## A & E NETWORK

The Emmy Award-winning A&E Network now serves more than 78 million homes in the U.S. It offers a unique blend of original programming, including mysteries from Hercule Poirot to Sherlock Holmes; the literary dramas *Tom Jones*, *Tess* and the yet-to-come *Hornblower*, based on the C. S. Forester novels, and investigative documentaries hosted by Bill Kurtis.

In 1999, A&E also will unveil a slate of original movies, including *Murder in a Small Town*, a mystery starring Gene Wilder; *Dash & Lilly*, starring Sam Shepard and Judy Davis as writers Dashiell Hammett and Lillian Hellman, with Bebe Neuwirth as Dorothy Parker; the life of showman P. T. Barnum, and Edgar Allan Poe's *Murders in the Rue Morgue*.

## THE HISTORY CHANNEL

The History Channel won two 1998 Peabody Awards for excellence in documentary programming and is the only TV network devoted exclusively to the subject of history. It is now available in more than 50 million homes.

Right: *Oh Baby* is one of three original prime-time series airing only on Lifetime.

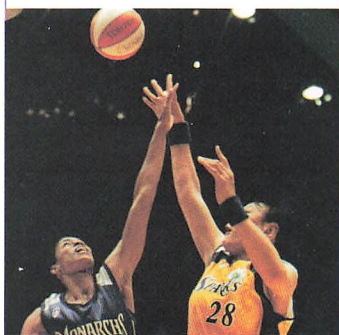
Bottom: Adapted from the Thomas Hardy literary classic, *Tess* is one of a slate of movies airing this season on A&E.

Lifetime has expanded its coverage of women's sports to include Women's Team triathlon events.

Max Beesley stars in *Tom Jones* on A&E.

*Lifetime*  
Television for Women

The WNBA tips off on Lifetime.



**A&E**  
NETWORK





The channel's critically acclaimed programming in 1998 included *Ku Klux Klan: A Secret History*; *The Star Spangled Banner*; and *Coming Home: The Veteran Experience in America*, chronicling veterans from Bunker Hill to Baghdad.

## E! ENTERTAINMENT TELEVISION

E! increased its reach to 51 million U.S. cable and direct broadcast satellite subscribers in 1998. In October, the company launched its second channel, "style," a 24-hour network devoted to style, fashion and the events that shape these worlds. E! programming is seen in more than 120 countries, reaching 400 million homes. It has two 24-hour branded channels outside the U.S. and is planning to start other regional versions in 1999.

## WALT DISNEY TELEVISION INTERNATIONAL

In just 12 months, WDTV-I launched Disney Channels in Spain and Italy, bringing the count to eight, with plans for at least three more before 2000. Subscriber levels have increased in all markets, with channels in France and Spain doing particularly well.

WDTV-I established new free-TV relationships in Latin America and developed critically acclaimed kids' programming, such as the interactive live-TV program *DiggIt* in the United Kingdom. WDTV-I now licenses nearly 5,000 hours of programming worldwide and provides more than 400 hours of Disney-branded shows weekly.

## FAIRCHILD PUBLICATIONS

Fairchild publishes *Jane*, *Los Angeles Magazine* and *W*, a fashion lifestyle magazine that was named one of *AdWeek's* 10 Hottest Magazines for the second straight year.

In addition to its consumer magazines, Fairchild produces nine other fashion and retail trade publications, including *Women's Wear Daily* and *Daily News Record*. With 15 bureaus and more than 700 employees across the globe, Fairchild is one of the world's largest fashion news-gathering networks.

*Statements describing the company's expectations for future developments constitute "forward-looking statements" that are subject to uncertainties and possible change. For a discussion of factors that may affect future performance, see "Forward-Looking Statements" in the "Management's Discussions and Analysis" section of this report.*

*Coming Home: The Veteran Experience in America* told the story of American veterans from the Revolution to the Gulf War on the History Channel.

The History Channel, which won the 1998 Peabody Award for excellence in documentary programming, now reaches 51 million homes.

Emme hosts *Fashion Emergency* on E! Entertainment Television.

Fairchild Publications publishes popular consumer magazines, such as *W*, *Jane* and *Los Angeles*.





MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The company acquired the operations of ABC, Inc. ("ABC") on February 9, 1996. During 1997, the company sold KCAL, a Los Angeles television station, completed its final ABC purchase price allocation and determination of the related intangible assets and disposed of certain ABC publishing assets. To enhance comparability, certain information for 1997 and 1996 is presented on a "pro forma" basis, which assumes that these events occurred at the beginning of 1996. The pro forma results are not necessarily indicative of the combined results that would have occurred had these events actually occurred at the beginning of 1996.

CONSOLIDATED RESULTS

(in millions, except per share data)	As reported			Pro forma (unaudited)	
	1998	1997	1996	1997	1996
Revenues:					
Creative Content	\$10,302	\$10,937	\$10,159	\$10,098	\$ 9,564
Broadcasting	7,142	6,522	4,078	6,501	6,009
Theme Parks and Resorts	5,532	5,014	4,502	5,014	4,502
Total	\$22,976	\$22,473	\$18,739	\$21,613	\$20,075
Operating income: <sup>(1)</sup>					
Creative Content	\$ 1,403	\$ 1,882	\$ 1,561	\$ 1,693	\$ 1,435
Broadcasting	1,325	1,294	782	1,285	1,084
Theme Parks and Resorts	1,287	1,136	990	1,136	990
Gain on sale of KCAL	—	135	—	—	—
Accounting change	—	—	(300)	—	(300)
Total	4,015	4,447	3,033	4,114	3,209
Corporate activities and other	(236)	(367)	(309)	(367)	(249)
Net interest expense	(622)	(693)	(438)	(693)	(698)
Acquisition-related costs	—	—	(225)	—	—
Income before income taxes	3,157	3,387	2,061	3,054	2,262
Income taxes	(1,307)	(1,421)	(847)	(1,282)	(988)
Net income	\$ 1,850	\$ 1,966	\$ 1,214	\$ 1,772	\$ 1,274
Earnings per share: <sup>(3)</sup>					
Diluted	\$ 0.89	\$ 0.95	\$ 0.65	\$ 0.86	\$ 0.62
Basic	\$ 0.91	\$ 0.97	\$ 0.66	\$ 0.88	\$ 0.63
Net income excluding non-recurring items <sup>(2)</sup>	\$ 1,850	\$ 1,886	\$ 1,534	\$ 1,772	\$ 1,457
Earnings per share excluding non-recurring items: <sup>(2)(3)</sup>					
Diluted	\$ 0.89	\$ 0.92	\$ 0.83	\$ 0.86	\$ 0.70
Basic	\$ 0.91	\$ 0.93	\$ 0.84	\$ 0.88	\$ 0.72
Amortization of intangible assets included in operating income	\$ 431	\$ 439	\$ 301	\$ 413	\$ 413
Average number of common and common equivalent shares outstanding: <sup>(3)</sup>					
Diluted	2,079	2,060	1,857	2,060	2,067
Basic	2,037	2,021	1,827	2,021	2,037
<sup>(1)</sup> Includes depreciation and amortization (excluding film costs) of:					
Creative Content	\$ 219	\$ 222	\$ 186	\$ 187	\$ 145
Broadcasting	543	508	382	521	521
Theme Parks and Resorts	444	408	358	408	358
	\$ 1,206	\$ 1,138	\$ 926	\$ 1,116	\$ 1,024

<sup>(2)</sup>The 1997 results include a \$135 million gain from the sale of KCAL. See Note 2 to the Consolidated Financial Statements. The 1996 results include two non-recurring charges. The company adopted Statement of Financial Accounting Standards No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, which resulted in the company recognizing a \$300 million non-cash charge. In addition, the company recognized a \$225 million charge for costs related to the acquisition of ABC. See Notes 2 and 11 to the Consolidated Financial Statements.

<sup>(3)</sup>Earnings per share and average shares outstanding have been adjusted to give effect to the three-for-one split of the company's common shares in June 1998.



The following discussion of 1998 versus 1997 and 1997 versus 1996 performance includes comparisons to pro forma results for 1997 and 1996. The company believes pro forma results represent a meaningful comparative standard for assessing net income, changes in net income and earnings trends because the pro forma results include comparable operations in each year presented. The discussion of the Theme Parks and Resorts segment does not include pro forma comparisons, since the pro forma adjustments did not impact this segment.

## *CONSOLIDATED RESULTS*

**1998 vs. 1997** Compared to 1997 pro forma results, revenues increased 6% to \$23 billion, driven by growth in all business segments. Net income and diluted earnings per share increased 4% and 3% to \$1.9 billion and \$.89, respectively. These results were driven by a reduction in net expense associated with corporate activities and other and lower net interest expense, partially offset by decreased operating income. The reduction in net expense associated with corporate activities and other was driven by improved results from the company's equity investments, including A&E Television and Lifetime Television, and a gain on the sale of the company's interest in Scandinavian Broadcasting System. Decreased net interest expense reflected lower average debt balances during the year. Lower operating income was driven by a decline in Creative Content results, partially offset by improvements from Theme Parks and Resorts and Broadcasting.

As reported revenues increased 2% and net income and diluted earnings per share decreased by 6%. The as reported results reflect the items described above as well as the impact of the disposition of certain ABC publishing assets and the sale of KCAL in 1997.

In April 1997, the company purchased a significant equity stake in Starwave Corporation ("Starwave"), an internet technology company. In connection with the acquisition, the company was granted an option to purchase substantially all the remaining shares of Starwave. The company exercised the option during the third quarter of 1998. Accordingly, the accounts of Starwave have been included in the company's September 30, 1998 consolidated financial statements. On June 18, 1998, the company reached an agreement for the acquisition of Starwave by Infoseek Corporation ("Infoseek"), a publicly-held internet search company, pursuant to a merger. On November 18, 1998, the shareholders of both Infoseek and Starwave approved the merger. As a result of the merger and the company's purchase of additional shares of Infoseek common stock pursuant to the merger agreement, the company owns approximately 43% of Infoseek's outstanding common stock. In addition, pursuant to the merger agreement, the company purchased warrants enabling it, under certain circumstances, to achieve a majority stake in Infoseek. These warrants vest over a three-year period and expire in five years. Effective as of the November 18, 1998 closing date of the transaction, the company will record a significant non-

cash gain, a write-off for purchased in-process research and development costs and an increase in investments, reflecting the company's share of the fair value of Infoseek's intangible assets. The company is currently performing the necessary valuations to determine the gain, the research and development write-off and the amount of and amortization period for the intangible assets. Thereafter, the company will account for its investment in Infoseek under the equity method. The merger is not expected to have a material effect on the company's financial position.

**1997 vs. 1996** Compared to 1996 pro forma results, pro forma revenues increased 8% to \$21.6 billion, reflecting growth in all business segments. Pro forma net income and diluted earnings per share, excluding non-recurring items, increased 22% and 23% to \$1.8 billion and \$.86, respectively. These results were driven by increased operating income across all business segments, partially offset by an increase in corporate activities and other driven by certain non-recurring items in both years. 1997 reflects settlements with former senior executives and 1996 reflects certain gains at ABC, primarily related to the sale of an investment in a cellular communications company.

As reported revenues increased 20%, reflecting increases in all business segments and the impact of the acquisition of ABC. Net income, excluding the non-recurring items discussed above, increased 23%, driven by increased operating income for each business segment. Diluted earnings per share, excluding the non-recurring items, increased 11%, reflecting net income growth, partially offset by the impact of additional shares issued in connection with the acquisition. Results for 1997 included a full period of ABC's operations.

## *BUSINESS SEGMENT RESULTS*

### **CREATIVE CONTENT**

**1998 vs. 1997** Revenues increased 2% or \$204 million to \$10.3 billion compared with pro forma 1997, driven by growth of \$204 million in television distribution, \$136 million in the Disney Stores, \$54 million in domestic publishing and \$51 million in domestic character merchandise licensing. These increases were partially offset by declines in worldwide home video and theatrical motion picture distribution of \$330 million. Growth in television distribution revenue was driven by higher volume of television programming and theatrical releases distributed to the worldwide television market. Increased revenues at the Disney Stores reflected an increase in comparable store sales in North America and Europe and continued worldwide expansion, partially offset by a decrease in comparable store sales in Asian markets. The increase in domestic publishing revenues resulted from the success of book titles such as *Don't Sweat the Small Stuff* and the launch of *ESPN The Magazine*. Character merchandise licensing growth was driven primarily by the continued strength of *Winnie the Pooh* in the domestic market, partially offset by declines internationally, primarily due to softness in Asian



markets. Lower worldwide home video revenues reflected difficult comparisons to the prior year, which benefited from the strength of *Toy Story*, *The Hunchback of Notre Dame* and *101 Dalmatians*, compared to the current year release of *Lady & the Tramp*, *Hercules* and *The Little Mermaid*, as well as economic weaknesses in Asian markets. In worldwide theatrical motion picture distribution, while current year revenues reflected successful box-office performances of *Armageddon*, Disney's highest-grossing live-action film, and *Mulan*, its most recent animated release, revenues were lower overall due to difficult comparisons to the prior year, which benefited from the strong performances of *101 Dalmatians*, *Ransom* and *The English Patient*.

On an as reported basis, revenues decreased \$635 million or 6%, reflecting the items described above, as well as the impact of the disposition of certain ABC publishing assets in the prior year.

Operating income decreased 17% or \$290 million to \$1.4 billion compared with pro forma 1997 results, reflecting declines in worldwide theatrical motion picture distribution and international home video. These declines were partially offset by growth in television distribution, increases in domestic merchandise licensing, Disney Store growth in North America and Europe and improved results in domestic home video, driven by the success of *The Little Mermaid*, *Lady & the Tramp* and *Peter Pan*. Costs and expenses, which consist primarily of production cost amortization, distribution and selling expenses, product costs, labor and leasehold expenses, increased 6% or \$494 million. The increase was driven by increased writedowns related to domestic theatrical live-action releases and an increase in production costs for theatrical and television product, as well as an increase in the number of shows produced for network television and syndication. Production cost increases are reflective of industry trends: as competition for creative talent has increased, costs within the industry have increased at a rate significantly above inflation. Cost and expense increases were also due to increased activity related to internet start-up businesses. In addition, current year costs and expenses reflected charges totaling \$64 million related to strategic downsizing in the Company's consumer product business, particularly in response to Asian economic difficulties, and consolidation of certain studio operations in its filmed entertainment business. Increased expenses for the year were partially offset by declines in distribution and selling expenses in the home video and domestic theatrical motion picture distribution markets reflecting lower volume, declines within television distribution due to the termination of a network production joint venture and a decrease in development and other operating expenses at Disney Interactive.

On an as reported basis, operating income decreased \$479 million or 25%, reflecting the items described above, as well as the impact of the disposition of certain ABC publishing assets in the prior year.

**1997 vs. 1996** Pro forma revenues increased 6% or \$534 million to \$10.1 billion compared with pro forma 1996, driven by growth of \$210 million in the Disney Stores, \$143 million in character merchandise licensing, \$104 million in television distribution and \$88 million in home video. Growth at the Disney Stores reflected continued worldwide expansion with 106 new stores opening in 1997. Increases in character merchandise licensing reflected the strength of *Winnie the Pooh* and *Toy Story* domestically, and standard characters and *101 Dalmatians* worldwide. The increase in television revenues was driven by an increase in the distribution of film and television product in the international television market. Home video results reflected the successful performance of *Toy Story*, *The Hunchback of Notre Dame* and *101 Dalmatians* worldwide and *Bambi* and *Sleeping Beauty* domestically.

On an as reported basis, revenues increased \$778 million or 8%, reflecting the items described above, as well as increased revenues from ABC's publishing assets up to the date of disposition. Additionally, 1997 included a full period of revenues from certain ABC Television production operations.

Pro forma operating income increased 18% or \$258 million to \$1.7 billion compared with pro forma 1996, reflecting improved results for theatrical distribution, character merchandise licensing and television distribution, partially offset by a reduction in home video results. Costs and expenses, increased 3% or \$276 million, reflecting increased amortization in the home video market and continued expansion of the Disney Stores, offset by a reduction in distribution costs in the domestic theatrical market and the write-off of certain theatrical development projects in the prior year.

On an as reported basis, operating income increased \$321 million or 21%, reflecting the items described above as well as higher operating income from ABC's publishing assets up to the date of disposition.

## **BROADCASTING**

**1998 vs. 1997** Revenues increased 10% or \$641 million to \$7.1 billion compared with pro forma 1997 results, reflecting a \$427 million increase at ESPN and the Disney Channel, a \$110 million increase at the television network and an \$81 million increase at the television stations. A strong advertising market resulted in increased revenues at ESPN and the television stations and subscriber growth contributed to revenue increases at ESPN and the Disney Channel. Television network growth was driven by higher sports advertising revenues, primarily attributable to the 1998 soccer World Cup.

On an as reported basis, revenues increased \$620 million or 10%, reflecting the items described above, partially offset by the impact of the sale of KCAL in the prior year.

Operating income increased 3% or \$40 million to \$1.3 billion compared with pro forma 1997 results reflecting increased revenues at ESPN, the Disney Channel and the television stations, partially offset by lower results at the tele-



vision network and start-up and operating losses from new business initiatives. Results at the television network reflected the impact of lower ratings and increased costs and expenses. Costs and expenses, which consist primarily of programming rights and amortization, production costs, distribution and selling expenses and labor costs, increased 12% or \$601 million, reflecting increased programming and production costs at ESPN, higher program amortization at the television network, reflecting a reduction in benefits from the ABC acquisition, increased costs related to the NFL contract (see discussion below) and start-up and operating costs related to new business initiatives.

On an as reported basis, operating income increased \$31 million or 2%, reflecting the items described above, partially offset by the impact of the sale of KCAL in the prior year.

The company has continued to invest in its existing cable television networks and in new cable ventures to diversify and expand the available distribution channels for acquired and company programming. During 1998, the company acquired the Classic Sports Network, a cable network devoted to memorable sporting events, invested in a number of international cable ventures and continued its international expansion of the Disney Channel.

The company's cable operations continue to provide strong earnings growth. The company's results for 1998 reflect an increase in pretax income of \$148 million or 18% for mature cable properties compared with 1997 results, including the company's share of earnings from ESPN, the Disney Channel, A&E Television and Lifetime Television. These increases were partially offset by the company's recognition of its proportionate share of losses associated with start-up cable ventures. Start-up cable ventures are generally operations that are in the process of establishing distribution channels and a subscriber base and that have not reached their full level of normalized operations. These include various domestic and international ESPN and Disney Channel start-up cable ventures. The company's pretax income reflected an increase of 20% from all cable properties.

The financial results of ESPN and the Disney Channel are included in Broadcasting operating income. The company's share of all other cable operations and the ESPN minority interest deduction are reported in "Corporate activities and other" in the Consolidated Statements of Income.

There has been a continuing decline in viewership at all major broadcast networks, including ABC, reflecting the growth in the cable industry's share of viewers. In addition, there have been continuing increases in the cost of sports and other programming.

During the second quarter of 1998, the company entered into a new agreement with the National Football League (the "NFL") for the right to broadcast NFL football games on the ABC Television Network and ESPN. The contract provides for total payments of approximately \$9 billion over an eight-year period, commencing with the 1998 season. The programming rights fees under the new contract are significantly

higher than those required by the previous contract and the fee increases exceed the estimated revenue increases over the contract term. The higher fees under the new contract reflect various factors, including increased competition for sports programming rights and an increase in the number of games to be broadcast by ESPN. The company is pursuing a variety of strategies, including marketing efforts, to reduce the impact of the higher costs. The contract's impact on the company's results over the remaining contract term is dependent upon a number of factors, including the strength of the advertising markets, effectiveness of marketing efforts and the size of viewer audiences.

The cost of the NFL contract is charged to expense based on the ratio of each period's gross revenues to estimated total gross revenues. Estimates of total gross revenues can change significantly and accordingly, they are reviewed periodically and amortization is adjusted if necessary. Such adjustments could have a material effect on results of operations in future periods.

*1997 vs. 1996* Pro forma revenues increased 8% or \$492 million to \$6.5 billion compared with pro forma 1996, driven by increases of \$336 million at ESPN and the Disney Channel, and \$74 million at the television network. The increases at ESPN and the Disney Channel were due primarily to higher advertising revenues and affiliate fees due primarily to expansion, subscriber growth and improved advertising rates. Growth in revenues at the television network was primarily the result of improved performance of sports, news and latenight programming, partially offset by a decline in primetime ratings.

On an as reported basis, revenues increased \$2.4 billion or 60%, reflecting a full period of ABC's broadcasting operations in 1997.

Pro forma operating income increased 19% or \$201 million to \$1.3 billion compared with pro forma 1996, reflecting increases in revenues at ESPN and the Disney Channel, as well as improved results at the television stations, partially offset by decreases at the television network. Results at the television network reflected the impact of lower ratings, partially offset by benefits arising from the period's sporting events, improvements in children's programming, continued strength in the advertising market and decreased program amortization. Costs and expenses increased 6% or \$291 million. This increase reflected increased programming rights and production costs, driven by international growth at ESPN and increases at the television network, partially offset by benefits arising from reductions in program amortization and other costs at the television network, primarily attributable to the acquisition.

On an as reported basis, operating income increased \$512 million or 65%, reflecting a full period of ABC's broadcasting operations in 1997.

The company's results for 1997 reflect an increase in pretax income of \$182 million or 28% for mature cable



properties compared with 1996 results. These increases were partially offset by the company's recognition of its proportionate share of losses associated with start-up cable ventures. Overall, the company's pretax income increased 29% in 1997 from all cable properties.

#### **THEME PARKS AND RESORTS**

*1998 vs. 1997* Revenues increased 10% or \$518 million to \$5.5 billion, driven by growth at the Walt Disney World Resort, reflecting contributions of \$256 million, from increased guest spending and record attendance, growth of \$106 million from higher occupied room nights and \$76 million from Disney Cruise Line. Higher guest spending reflected strong per capita spending, due in part to new food, beverage and merchandise offerings throughout the resort, and higher average room rates. Increased occupied room nights reflected additional capacity resulting from the opening of Disney's Coronado Springs Resort in August 1997. Record theme park attendance resulted from growth in domestic and international tourist visitation due to the opening of the new theme park, Disney's Animal Kingdom. Disneyland's revenues for the year increased slightly as higher guest spending was largely offset by reduced attendance driven primarily by difficult comparisons to the prior year's Main Street Electrical Parade farewell season and construction of New Tomorrowland in the first half of 1998.

Operating income increased 13% or \$151 million to \$1.3 billion, resulting primarily from higher guest spending, increased occupied room nights and record attendance at the Walt Disney World Resort, partially offset by start-up and operating costs associated with Disney's Animal Kingdom and Disney Cruise Line. Costs and expenses, which consist principally of labor, costs of merchandise, food, and beverages sold, depreciation, repairs and maintenance, entertainment and marketing and sales expenses, increased 9% or \$367 million. Increased costs and expenses were driven by higher theme park attendance, start-up and operating costs at the new theme park and Disney Cruise Line.

*1997 vs. 1996* Revenues increased 11% or \$512 million to \$5.0 billion, reflecting growth at the Walt Disney World Resort, which celebrated its 25th Anniversary. Growth at the resort included \$272 million from greater guest spending, \$111 million from increased occupied rooms and \$97 million due to record theme park attendance. Higher guest spending reflected increased merchandise and food and beverage sales, higher admission prices and increased room rates at hotel properties. Increased merchandise spending reflected sales of the 25th Anniversary products and the performance of the World of Disney, the largest Disney retail outlet, which opened in October 1996. The increase in occupied rooms reflected higher occupancy and a complete year of operations at Disney's BoardWalk Resort, which opened in the fourth quarter of 1996. Occupied rooms also increased due to the opening of Disney's Coronado Springs Resort in August 1997.

Record theme park attendance resulted from growth in domestic tourist visitation. Disneyland's revenues for the year were flat due to higher guest spending offset by reduced attendance from the prior-year's record level.

Operating income increased 15% or \$146 million to \$1.1 billion, resulting primarily from higher guest spending, increased occupied rooms and record theme park attendance at the Walt Disney World Resort. Costs and expenses increased 10% or \$366 million. Increased operating costs were associated with growth in theme park attendance and occupied rooms, higher guest spending and increased marketing and sales expenses primarily associated with Walt Disney World Resort's 25th Anniversary celebration. Additional cost increases resulted from theme park and resort expansions including Disney's Animal Kingdom and Disney Cruise Line, which both began operations in 1998.

#### ***LIQUIDITY AND CAPITAL RESOURCES***

The company generates significant cash from operations and has substantial borrowing capacity to meet its operating and discretionary spending requirements. Cash provided by operations was comparable to the prior year, at \$5.1 billion.

In 1998, the company invested \$3.3 billion to develop and produce film and television properties and \$2.3 billion to design and develop new theme park attractions, resort properties, real estate developments and other properties. 1997 investments totaled \$3.1 billion and \$1.9 billion, respectively.

The \$246 million increase in investment in film and television properties was primarily driven by higher live-action and animation spending. Live-action production spending was driven by increases at Miramax and higher animation spending reflected an increase in the number of films in production.

The \$392 million increase in investment in theme parks, resorts and other properties resulted primarily from initiatives including Disney's California Adventure and Disney Cruise Line. Capital spending is expected to increase in 1999, driven by increased spending for Disney's California Adventure.

The company acquires shares of its stock on an ongoing basis and is authorized as of September 30, 1998 to purchase up to an additional 400 million shares. This amount reflects an increase in the repurchase authorization and the three-for-one split of the company's common shares, both effected in June 1998. During 1998, a subsidiary of the company acquired approximately 1.1 million shares of the company's common stock for approximately \$30 million. The company also used \$412 million to fund dividend payments during the year.

During 1998, total borrowings increased to \$11.7 billion. The company borrowed approximately \$1.8 billion in 1998, with effective interest rates, including the impact of interest rate swaps, ranging from 5.2% to 6.8% and maturities in fiscal 1999 through fiscal 2008. Certain of these financing agreements are denominated in foreign currencies, and the company has entered into cross-currency swap agreements effectively converting these obligations into U.S. dollar



denominated LIBOR-based variable rate debt instruments. In August 1998, the company filed a new U.S. registration statement, which replaced the existing U.S. shelf registration statement, and provides for issuance of up to \$5.0 billion of debt. As of September 30, 1998, the company had the ability to borrow under the U.S. shelf registration statement and a euro medium-term note program, which collectively permitted the issuance of up to approximately \$5.8 billion of additional debt. In addition, the company has \$5.2 billion available under bank facilities to support its commercial paper activities.

The company's financial condition remains strong. The company believes that its cash, other liquid assets, operating cash flows and access to capital markets, taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects.

## *OTHER MATTERS*

### **YEAR 2000**

*The Y2K Problem.* The company is devoting significant resources throughout its business operations to minimize the risk of potential disruption from the "year 2000 ('Y2K') problem." This problem is a result of computer programs having been written using two digits (rather than four) to define the applicable year. Any information technology ("IT") systems that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations and system failures. The problem also extends to many "non-IT" systems; that is, operating and control systems that rely on embedded chip systems. In addition, like every other business enterprise, the company is at risk from Y2K failures on the part of its major business counterparts, including suppliers, distributors, licensees and manufacturers, as well as potential failures in public and private infrastructure services, including electricity, water, gas, transportation and communications.

System failures resulting from the Y2K problem could adversely affect operations and financial results in all of the company's business segments. Failures may affect security, payroll operations or employee and guest health and safety, as well as such routine but important operations as billing and collection. In addition, the company's business segments face more specific risks. For example:

The company's Theme Parks and Resorts operations could be significantly impeded by failures in hotel and cruise line reservation and operating systems; in theme park operating systems, including those controlling individual rides, attractions, parades and shows; and in security, health and safety systems.

In the Creative Content segment, Y2K failures could interfere with critical systems in such areas as the production, duplication and distribution of motion picture and home video product and the ordering, distribution and sale of merchandise at the company's retail stores and catalog operations.

In the Broadcasting segment, at-risk operations include satellite transmission and communication systems. Y2K failures in such systems could adversely affect the company's television and radio networks, including cable services, as well as its owned and operated stations.

*Addressing the Problem.* The company has developed a six-phase approach to resolving the Y2K issues that are reasonably within its control. All of these efforts are being coordinated through a senior-level task force chaired by the company's Chief Information Officer ("CIO"), as well as individual task forces in each major business unit. As of September 30, 1998, approximately 400 employees were devoting more than half of their time to Y2K efforts, in addition to approximately 400 expert consultants retained on a full-time basis to assist with specific potential problems. The CIO reports periodically to the Audit Review Committee of the Board of Directors with respect to the company's Y2K efforts.

The company's approach to and the anticipated timing of each phase are described below.

*Phase 1 – Inventory.* The first phase entails a worldwide inventory of all hardware and software (including business and operational applications, operating systems and third-party products) that may be at risk, and identification of key third-party businesses whose Y2K failures might most significantly impact the company. The IT system inventory process has been completed, and the inventories of key third-party businesses and of internal non-IT systems are expected to be completed by December 31, 1998.

*Phase 2 – Assessment.* Once each at-risk system has been identified, the Y2K task forces assess how critical the system is to business operations and the potential impact of failure, in order to establish priorities for repair or replacement. Systems are classified as "critical," "important" or "non-critical." A "critical" system is one that, if not operational, would cause the shutdown of all or a portion of a business unit within two weeks, while an "important" system is one that would cause such a shutdown within two months. This process has been completed for all IT systems, resulting in the identification of nearly 600 business systems that are "critical" to continued functioning and more than 1,000 that are either "important" or are otherwise being monitored. The assessment process for internal non-IT systems and for key third-party businesses is expected to be completed by mid-1999. Systems that are known to be critical or important are receiving top priority in assessment and remediation.

*Phase 3 – Strategy.* This phase involves the development of appropriate remedial strategies for both IT and non-IT systems. These strategies may include repairing, testing and certifying, replacing or abandoning particular systems (as discussed under Phases 4 and 5 below). Selection of appropriate strategies is based upon such factors as the assessments made in Phase 2, the type of system, the availability of a Y2K-compliant replacement and cost. The strategy phase has been completed for all IT systems. For some non-IT embed-



ded systems, strategy development is continuing. At the company's theme parks, the majority of ride and show control systems have been tested and certified. A strategy for addressing embedded systems in office buildings is being developed in concert with building managers and systems vendors and should be completed by spring 1999. The process of analysis, certification or replacement or "workaround" for embedded systems in office buildings is expected to consume the first half of 1999. Strategies for other embedded systems, such as satellite communications systems, are being developed and are also expected to be complete by mid-1999.

*Phase 4 – Remediation.* The remediation phase involves creating detailed project plans, marshalling necessary resources and executing the strategies chosen. For IT systems, this phase is approximately 75% complete for critical and important systems, and is expected to be completed (including certification) by July 31, 1999. For non-critical systems, most corrections are expected to be completed by December 31, 1999. For those systems that are not expected to be reliably functional after January 1, 2000, detailed manual workaround plans will be developed prior to the end of 1999.

*Phase 5 – Testing and Certification.* This phase includes establishing a test environment, performing systems testing (with third parties if necessary), and certifying the results. The certification process entails having functional experts review test results, computer screens and printouts against pre-established criteria to ensure system compliance. The company expects all critical and important IT systems to be certified by July 31, 1999. Testing for non-IT systems has been initiated; however, due to the company's reliance on many third-party vendors for these systems, the company cannot estimate precisely when this phase will be completed. The majority of embedded systems at the company's theme parks are expected to be certified by December 31, 1998. The company's target for all critical and important non-IT systems is July 1999.

The company has initiated written and telephonic communications with key third-party businesses, as well as public and private providers of infrastructure services, to ascertain and evaluate their efforts in addressing Y2K compliance. It is anticipated that the majority of testing and certification with these entities will occur in 1999.

*Phase 6 – Contingency Planning.* This phase involves addressing any remaining open issues expected in 1999 and early 2000. As a precautionary measure, the company is currently developing contingency plans for all systems that are not expected to be Y2K compliant by March 1999. A variety of automated as well as manual fallback plans are under consideration, including the use of electronic spreadsheets, resetting system dates to 1972, a year in which the calendar coincides with that of 2000, and manual workarounds. The company estimates that all of these plans will be completed by December 1999.

*Costs.* As of September 30, 1998, the company had incurred costs of approximately \$136 million related to its Y2K project, of which \$82 million has been capitalized. The estimated additional costs to complete the project are currently expected to be approximately \$125 million, of which \$60 million is expected to be capitalized. A significant portion of these costs have not been incremental, but rather reflect redeployment of internal resources from other activities. The company does not expect these redeployments to have a material adverse effect on other ongoing business operations of the company and its subsidiaries, although it is possible that certain maintenance and upgrading processes will be delayed as the result of the priority being given to Y2K remediation. All of the costs of the Y2K project are being borne out of the company's operating cash flow.

Based upon its efforts to date, the company believes that the vast majority of both its IT and its non-IT systems, including all critical and important systems, will remain up and running after January 1, 2000. Accordingly, the company does not currently anticipate that internal systems failures will result in any material adverse effect to its operations or financial condition. During 1999, the company will also continue and expand its efforts to ensure that major third-party businesses and public and private providers of infrastructure services, such as utilities, communications services and transportation, will also be prepared for the year 2000, and to develop contingency plans to address any failures on their part to become Y2K compliant. At this time, the company believes that the most likely "worst-case" scenario involves potential disruptions in areas in which the company's operations must rely on such third parties whose systems may not work properly after January 1, 2000. In addition, the company's international operations may be adversely affected by failures of businesses in other parts of the world to take adequate steps to address the Y2K problem. While such failures could affect important operations of the company and its subsidiaries, either directly or indirectly, in a significant manner, the company cannot at present estimate either the likelihood or the potential cost of such failures.

The nature and focus of the company's efforts to address the Year 2000 problem may be revised periodically as interim goals are achieved or new issues are identified. In addition, it is important to note that the description of the company's efforts necessarily involves estimates and projections with respect to activities required in the future. These estimates and projections are subject to change as work continues, and such changes may be substantial.

#### **CONVERSION TO THE EURO CURRENCY**

On January 1, 1999, certain member countries of the European Union are scheduled to establish fixed conversion rates between their existing currencies and the European Union's common currency ("euro"). The company conducts business in member countries. The transition period for the



introduction of the euro will be between January 1, 1999 and June 30, 2002. The company is addressing the issues involved with the introduction of the euro. The more important issues facing the company include: converting information technology systems; reassessing currency risk; negotiating and amending licensing agreements and contracts; and processing tax and accounting records.

Based upon progress to date the company believes that use of the euro will not have a significant impact on the manner in which it conducts its business affairs and processes its business and accounting records. Accordingly, conversion to the euro is not expected to have a material effect on the company's financial condition or results of operations.

### *FORWARD-LOOKING STATEMENTS*

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of the company. The company and its representatives may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to the company's stockholders. All statements that express expectations and projections with respect to future matters, including the launching or prospective development of new business initiatives; anticipated motion picture or television releases; internet or theme park and resort projects; "Year 2000" remediation efforts; and preparations for the introduction of the euro, are forward-looking statements within the meaning of the Act. These statements are made on the basis of management's views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management's expectations will necessarily come to pass.

*Factors that may affect forward-looking statements.* For an enterprise as large and complex as the company, a wide range of factors could materially affect future developments and performance, including the following:

- Changes in company-wide or business-unit strategies, which may result in changes in the types or mix of businesses in which the company is involved or chooses to invest;
- Changes in U.S., global or regional economic conditions, which may affect attendance and spending at the company's theme parks and resorts, purchases of company-licensed consumer products and the performance of the company's broadcasting and motion picture operations;
- Changes in U.S. and global financial and equity markets, including significant interest rate fluctuations, which may impede the company's access to, or increase the cost of, external financing for its operations and investments;
- Increased competitive pressures, both domestically and internationally, which may, among other things, affect the performance of the company's theme park, resort and regional

entertainment operations and lead to increased expenses in such areas as television programming acquisition and motion picture production and marketing;

Legal and regulatory developments that may affect particular business units, such as regulatory actions affecting environmental activities, consumer products, broadcasting or internet activities, or the protection of intellectual properties, the imposition by foreign countries of trade restrictions or motion picture or television content requirements or quotas, and changes in international tax laws or currency controls;

Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, which may, among other things, impair performance at the company's theme parks and resorts;

Technological developments that may affect the distribution of the company's creative products or create new risks to the company's ability to protect its intellectual property;

Labor disputes, which may lead to increased costs or disruption of operations in any of the company's business units; and

Changing public and consumer taste, which may affect the company's entertainment, broadcasting and consumer products businesses.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

### *MARKET RISK*

The company is exposed to the impact of interest rate changes, foreign currency fluctuations and changes in the market values of its investments.

*Policies and Procedures* In the normal course of business, the company employs established policies and procedures to manage its exposure to changes in interest rates and fluctuations in the value of foreign currencies using a variety of financial instruments.

The company's objective in managing its exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the company primarily uses interest rate swaps to manage net exposure to interest rate changes related to its portfolio of borrowings. The company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The company's objective in managing the exposure to foreign currency fluctuations is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business



issues and challenges. Accordingly, the company enters into various contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities, commitments and anticipated foreign currency revenues. The company uses option strategies that provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. The principal currencies hedged are the Japanese yen, French franc, German mark, British pound, Canadian dollar and Italian lira. By policy, the company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for periods not to exceed five years. The gains and losses on these contracts offset changes in the value of the related exposures.

It is the company's policy to enter into foreign currency and interest rate transactions only to the extent considered necessary to meet its objectives as stated above. The company does not enter into foreign currency or interest rate transactions for speculative purposes.

**Value At Risk** The company utilizes a "Value-at-Risk" ("VAR") model to determine the maximum potential one-day loss in the fair value of its interest rate and foreign exchange sensitive financial instruments. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. There are various modeling techniques which can be used in the VAR computation. The company's computations are based on the interrelationships between movements in various currencies and interest rates (a "variance/co-variance" technique). These interrelationships were determined by observing interest rate and foreign currency market changes over the preceding quarter for the calculation of VAR amounts at year-end and over each of the four quarters for the calculation of average VAR amounts during the year. The model includes all of the company's debt as well as all interest rate and foreign exchange derivative contracts. The values of foreign exchange options do not change on a one-to-one basis with the underlying currencies, as exchange rates vary. Therefore, the hedge coverage assumed to be obtained from each option has been adjusted to reflect its respective sensitivity to changes in currency values. Anticipated transactions, firm commitments and receivables and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VAR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by the company, nor does it consider the potential effect of favorable changes in market factors. (See Note 12 to the Consolidated Financial Statements regarding the company's financial instruments at September 30, 1998 and 1997.)

The estimated maximum potential one-day loss in fair value, calculated using the VAR model, follows (in millions):

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Combined Portfolio
VAR as of			
September 30, 1998	\$32	\$29	\$56
Average VAR during the year ended			
September 30, 1998	\$21	\$26	\$32

The higher VAR combined portfolio exposure at September 30, 1998 is primarily due to the volatile financial market environment existing at year end. Since the company utilizes currency sensitive derivative instruments to hedge anticipated foreign currency transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying anticipated transactions.

**New Accounting Guidance.** In June 1998, the Financial Accounting Standards Board (the "FASB") issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), which the company is required to adopt effective October 1, 1999. SFAS 133 will require the company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or for forecasted transactions, deferred and recorded as a component of other stockholders' equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. The impact of SFAS 133 on the company's financial statements will depend on a variety of factors, including future interpretative guidance from the FASB, the future level of forecasted and actual foreign currency transactions, the extent of the company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. However, the company does not believe the effect of adopting SFAS 133 will be material to its financial position.



# CONSOLIDATED STATEMENTS OF INCOME

The Walt Disney Company and Subsidiaries

(In millions, except per share data)	Year Ended September 30		
	1998	1997	1996
Revenues	<b>\$ 22,976</b>	\$ 22,473	\$ 18,739
Costs and expenses	<b>(18,961)</b>	(18,161)	(15,406)
Gain on sale of KCAL	—	135	—
Accounting change	—	—	(300)
Operating income	<b>4,015</b>	4,447	3,033
Corporate activities and other	<b>(236)</b>	(367)	(309)
Net interest expense	<b>(622)</b>	(693)	(438)
Acquisition-related costs	—	—	(225)
Income before income taxes	<b>3,157</b>	3,387	2,061
Income taxes	<b>(1,307)</b>	(1,421)	(847)
Net income	<b>\$ 1,850</b>	\$ 1,966	\$ 1,214
Earnings per share			
Diluted	<b>\$ 0.89</b>	\$ 0.95	\$ 0.65
Basic	<b>\$ 0.91</b>	\$ 0.97	\$ 0.66
Average number of common and common equivalent shares outstanding			
Diluted	<b>2,079</b>	2,060	1,857
Basic	<b>2,037</b>	2,021	1,827



(In millions)	September 30	
	1998	1997
<i>Assets</i>		
Current Assets		
Cash and cash equivalents	\$ 127	\$ 317
Receivables	3,999	3,329
Inventories	899	853
Film and television costs	3,223	2,186
Deferred income taxes	463	482
Other assets	664	486
Total current assets	9,375	7,653
Film and television costs	2,506	2,215
Investments	1,814	1,914
Theme parks, resorts and other property, at cost		
Attractions, buildings and equipment	14,037	11,787
Accumulated depreciation	(5,382)	(4,857)
	8,655	6,930
Projects in progress	1,280	1,928
Land	411	93
	10,346	8,951
Intangible assets, net	15,769	16,011
Other assets	1,568	1,753
	<b>\$41,378</b>	<b>\$38,497</b>
<i>Liabilities and Stockholders' Equity</i>		
Current Liabilities		
Accounts and taxes payable and other accrued liabilities	\$ 4,767	\$ 4,748
Current portion of borrowings	2,132	897
Unearned royalties and other advances	635	631
Total current liabilities	7,525	6,276
Borrowings	9,562	10,171
Deferred income taxes	2,488	2,161
Other long term liabilities, unearned royalties and other advances	2,415	2,604
Stockholders' Equity		
Preferred stock, \$.01 par value		
Authorized — 100 million shares		
Issued — none		
Common stock, \$.01 par value		
Authorized — 3.6 billion shares		
Issued — 2.1 billion shares and 2.0 billion shares	8,995	8,548
Retained earnings	10,981	9,543
Cumulative translation and other	13	(12)
	19,989	18,079
Treasury stock, at cost, 29 million shares and 24 million shares	(593)	(462)
Shares held by TWDC Stock Compensation Fund, at cost — 0.4 million shares and 13 million shares	(8)	(332)
	19,388	17,285
	<b>\$41,378</b>	<b>\$38,497</b>



(In millions)	Year Ended September 30		
	1998	1997	1996
<i>Net Income</i>	<b>\$ 1,850</b>	\$ 1,966	\$ 1,214
<i>Items Not Requiring Cash Outlays</i>			
Amortization of film and television costs	<b>2,514</b>	1,995	1,786
Depreciation	<b>809</b>	738	672
Amortization of intangible assets	<b>431</b>	439	301
Gain on sale of KCAL	<b>—</b>	(135)	—
Accounting change	<b>—</b>	—	300
Other	<b>(75)</b>	(15)	22
<i>Changes In</i>			
Receivables	<b>(664)</b>	(177)	(297)
Inventories	<b>(46)</b>	8	(13)
Other assets	<b>179</b>	(441)	(399)
Accounts and taxes payable and accrued liabilities	<b>218</b>	608	56
Film and television costs — television broadcast rights	<b>(447)</b>	(179)	58
Deferred income taxes	<b>346</b>	292	(78)
Investments in trading securities	<b>—</b>	—	85
	<b>3,265</b>	3,133	2,493
<i>Cash Provided by Operations</i>	<b>5,115</b>	5,099	3,707
<i>Investing Activities</i>			
Film and television costs	<b>(3,335)</b>	(3,089)	(2,760)
Investments in theme parks, resorts and other property	<b>(2,314)</b>	(1,922)	(1,745)
Acquisitions	<b>(213)</b>	(180)	—
Proceeds from sales of marketable securities and other investments	<b>238</b>	31	409
Purchases of marketable securities	<b>(13)</b>	(56)	(18)
Investment in and loan to E! Entertainment	<b>(28)</b>	(321)	—
Proceeds from disposal of publishing operations	<b>—</b>	1,214	—
Acquisition of ABC, net of cash acquired	<b>—</b>	—	(8,432)
Proceeds from disposal of KCAL	<b>—</b>	387	—
	<b>(5,665)</b>	(3,936)	(12,546)
<i>Financing Activities</i>			
Borrowings	<b>1,830</b>	2,437	13,560
Reduction of borrowings	<b>(1,212)</b>	(4,078)	(4,872)
Repurchases of common stock	<b>(30)</b>	(633)	(462)
Dividends	<b>(412)</b>	(342)	(271)
Exercise of stock options and other	<b>184</b>	180	85
Proceeds from formation of REITs	<b>—</b>	1,312	—
	<b>360</b>	(1,124)	8,040
(Decrease) Increase in Cash and Cash Equivalents	<b>(190)</b>	39	(799)
Cash and Cash Equivalents, Beginning of Year	<b>317</b>	278	1,077
Cash and Cash Equivalents, End of Year	<b>\$ 127</b>	\$ 317	\$ 278
<i>Supplemental disclosure of cash flow information:</i>			
Interest paid	<b>\$ 555</b>	\$ 777	\$ 379
Income taxes paid	<b>\$ 1,107</b>	\$ 958	\$ 689



**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY** The Walt Disney Company and Subsidiaries

(In millions, except per share data)	Shares	Common Stock	Retained Earnings	Cumulative Translation and Other	Treasury Stock	TWDC Stock Compensation Fund	Total
<i>Balance at September 30, 1995</i>	1,573	\$1,240	\$ 6,976	\$ 38	\$(1,603)	\$ —	\$ 6,651
Impact of ABC acquisition	464	7,206	—	—	1,603	—	8,809
Exercise of stock options, net	9	144	—	—	—	—	144
Common stock repurchased	(24)	—	—	—	(462)	—	(462)
Dividends (\$.14 per share)	—	—	(271)	—	—	—	(271)
Cumulative translation and other	—	—	—	1	—	—	1
Net income	—	—	1,214	—	—	—	1,214
<i>Balance at September 30, 1996</i>	2,022	8,590	7,919	39	(462)	—	16,086
Exercise of stock options, net	15	(42)	—	—	—	301	259
Common stock repurchased	(24)	—	—	—	—	(633)	(633)
Dividends (\$.17 per share)	—	—	(342)	—	—	—	(342)
Cumulative translation and other	—	—	—	(51)	—	—	(51)
Net income	—	—	1,966	—	—	—	1,966
<i>Balance at September 30, 1997</i>	2,013	8,548	9,543	(12)	(462)	(332)	17,285
Common stock issued	4	160	—	—	—	—	160
Exercise of stock options, net	34	287	—	—	(131)	354	510
Common stock repurchased	(1)	—	—	—	—	(30)	(30)
Dividends (\$.20 per share)	—	—	(412)	—	—	—	(412)
Cumulative translation and other	—	—	—	25	—	—	25
Net income	—	—	1,850	—	—	—	1,850
<i>Balance at September 30, 1998</i>	2,050	\$8,995	\$10,981	\$13	\$ (593)	\$ (8)	\$19,388



(Tabular dollars in millions, except per share amounts)

*NOTE 1. DESCRIPTION OF THE  
BUSINESS AND SUMMARY OF  
SIGNIFICANT ACCOUNTING POLICIES*

The Walt Disney Company, together with its subsidiaries (the “company”), is a diversified international entertainment organization with operations in the following businesses.

*CREATIVE CONTENT*

The company produces and acquires live-action and animated motion pictures for distribution to the theatrical, home video and television markets. The company also produces original television programming for the network and first-run syndication markets. The company distributes its filmed product through its own distribution and marketing companies in the United States and most foreign markets.

The company licenses the name “Walt Disney,” as well as the company’s characters, visual and literary properties and songs and music, to various consumer manufacturers, retailers, show promoters and publishers throughout the world. The company also engages in direct retail distribution principally through the Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the company produces audio and computer software products for the entertainment market, as well as film, video and computer software products for the educational marketplace.

Buena Vista Internet Group (“BVI”) coordinates the company’s internet initiatives. BVI develops, publishes and distributes content for narrow-band on-line services, the interactive software market, interactive television platforms, internet web sites, including Disney.com, Disney’s Daily Blast, ESPN.com, ABCNews.com and the Disney Store Online, which offers Disney-themed merchandise over the internet.

*BROADCASTING*

The company operates the ABC Television Network, which has affiliated stations providing coverage to U.S. television households. The company also owns television and radio stations, most of which are affiliated with either the ABC Television Network or the ABC Radio Networks. The company’s cable and international broadcast operations are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in foreign television broadcasting, production and distribution entities. Primary domestic cable programming services, which operate through subsidiary companies and joint ventures, are ESPN, the A&E Television Networks, Lifetime Entertainment Services and E! Entertainment Television. The company provides programming for and operates cable and satellite television programming services, including the Disney Channel and Disney Channel International.

*THEME PARKS AND RESORTS*

The company operates the Walt Disney World Resort® in Florida, and Disneyland Park®, the Disneyland Hotel and the Disneyland Pacific Hotel in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot, Disney-MGM Studios and Disney’s Animal Kingdom, thirteen resort hotels and a complex of villas and suites, a retail, dining and entertainment complex, a sports complex, conference centers, campgrounds, golf courses, water parks and other recreational facilities. In addition, the resort operates Disney Cruise Line from Port Canaveral, Florida. Disney Regional Entertainment designs, develops and operates a variety of new entertainment concepts based on Disney brands and creative properties, operating under the names Club Disney, ESPN Zone and DisneyQuest. The company earns royalties on revenues generated by the Tokyo Disneyland® theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation. The company also has an investment in Euro Disney S.C.A., a publicly-held French entity that operates Disneyland Paris. The company’s Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The company also manages and markets vacation ownership interests in the Disney Vacation Club. Included in Theme Parks and Resorts are the company’s National Hockey League franchise, the Mighty Ducks of Anaheim, and its ownership interest in the Anaheim Angels, a Major League Baseball team.

*SIGNIFICANT ACCOUNTING POLICIES*

*Principles of Consolidation* The consolidated financial statements of the company include the accounts of The Walt Disney Company and its subsidiaries after elimination of intercompany accounts and transactions.

*Accounting Changes* During the first quarter, the company adopted Statement of Financial Accounting Standards No. 128 *Earnings Per Share* (“SFAS 128”), which specifies the method of computation, presentation and disclosure for earnings per share (“EPS”). SFAS 128 requires the presentation of two EPS amounts, basic and diluted. Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS includes the dilution that would occur if outstanding stock options and other dilutive securities were exercised and is comparable to the EPS the company has historically reported. The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price over the period.

During 1997, the company adopted SFAS 123 *Accounting for Stock-Based Compensation* (“SFAS 123”), which requires disclosure of the fair value and other characteristics of stock options (see Note 9). The company has chosen under the provisions of SFAS 123 to continue using the intrinsic-value method of accounting for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 *Accounting for Stock Issued to Employees* (“APB 25”).



During 1996, the company adopted SFAS 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of* ("SFAS 121") (see Note 11).

*Use of Estimates* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

*Revenue Recognition* Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

Broadcast advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the company's primary cable programming services are recognized as services are provided.

Revenues from participants and sponsors at the theme parks are generally recorded over the period of the applicable agreements commencing with the opening of the related attraction.

*Cash and Cash Equivalents* Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

*Investments* Debt securities that the company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or stockholders' equity, respectively. All other equity securities are accounted for using either the cost method or the equity method. The company's share of earnings or losses in its equity investments accounted for under the equity method is included in "Corporate activities and other" in the consolidated statements of income.

*Inventories* Carrying amounts of merchandise, materials and supplies inventories are generally determined on a moving average cost basis and are stated at the lower of cost or market.

*Film and Television Costs* Film and television costs are stated at the lower of cost, less accumulated amortization, or net realizable value. Television broadcast program licenses and rights and related liabilities are recorded when the license period begins and the program is available for use.

Film and television production and participation costs are expensed based on the ratio of the current period's gross revenues to estimated total gross revenues from all sources on an individual production basis. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on accelerated bases related to the usage of the programs. Television network series costs and multi-year sports rights are charged to expense based on the ratio of the current period's gross revenues to estimated total gross revenues from such programs.

Estimates of total gross revenues can change significantly due to a variety of factors, including the level of market acceptance of film and television products, advertising rates and subscriber fees. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted if necessary. Such adjustments could have a material effect on results of operations in future periods.

*Theme Parks, Resorts and Other Property* Theme parks, resorts and other property are carried at cost. Depreciation is computed on the straight-line method based upon estimated useful lives ranging from three to fifty years.

*Intangible/Other Assets* Intangible assets are amortized over periods ranging from two to forty years. The company continually reviews the recoverability of the carrying value of these assets using the methodology prescribed in SFAS 121. The company also reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amounts of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount, including associated intangible assets, of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

*Risk Management Contracts* In the normal course of business, the company employs a variety of off-balance-sheet financial instruments to manage its exposure to fluctuations in interest and foreign currency exchange rates, including interest rate and cross-currency swap agreements, forward, option, swaption and spreadlock contracts and interest rate caps.

The company designates and assigns the financial instruments as hedges of specific assets, liabilities or anticipated transactions. When hedged assets or liabilities are sold or extinguished or the anticipated transactions being hedged are no longer expected to occur, the company recognizes the gain or loss on the designated hedging financial instruments.

The company classifies its derivative financial instruments as held or issued for purposes other than trading. Option pre-



miums and unrealized losses on forward contracts and the accrued differential for interest rate and cross-currency swaps to be received under the agreements are recorded in the balance sheet as other assets. Unrealized gains on forward contracts and the accrued differential for interest rate and cross-currency swaps to be paid under the agreements are included in accounts and taxes payable and other accrued liabilities. Realized gains and losses from hedges are classified in the income statement consistent with the accounting treatment of the items being hedged. The company accrues the differential for interest rate and cross-currency swaps to be paid or received under the agreements as interest and exchange rates shift as adjustments to net interest expense over the lives of the swaps. Gains and losses on the termination of swap agreements, prior to their original maturity, are deferred and amortized to net interest expense over the remaining term of the underlying hedged transactions.

Cash flows from hedges are classified in the statements of cash flows under the same category as the cash flows from the related assets, liabilities or anticipated transactions (see Notes 5 and 12).

**Earnings Per Share** Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect. The difference between basic and diluted earnings per share, for the company, is solely attributable to stock options. For the years ended September 30, 1998, 1997 and 1996, options for 18 million, 15 million and 39 million shares, respectively, were excluded from diluted earnings per share.

Earnings per share amounts have been adjusted, for all years presented, to reflect the three-for-one split of the company's common shares effective June 1998 (see Note 8).

**Reclassifications** Certain reclassifications have been made in the 1997 and 1996 financial statements to conform to the 1998 presentation, including the change in format from an unclassified balance sheet to a classified balance sheet, which separately presents the current and non-current portions of assets and liabilities. Consistent with the classification of television broadcast rights as current assets, payments for such rights are now reclassified as operating cash flows.

## ***NOTE 2. ACQUISITION AND DISPOSITIONS***

On February 9, 1996, the company completed its acquisition of ABC. The aggregate consideration paid to ABC shareholders consisted of \$10.1 billion in cash and 155 million shares of company common stock valued at \$8.8 billion based on the stock price as of the date the transaction was announced.

As a result of the ABC acquisition, the company sold its independent Los Angeles television station, KCAL, during the

first quarter of 1997 for \$387 million, resulting in a gain of \$135 million.

The company completed its final purchase price allocation and determination of related goodwill, deferred taxes and other accounts during the second quarter of 1997.

During the third and fourth quarters of 1997, the company disposed of most of the publishing businesses acquired with ABC to various third parties for consideration approximating their carrying amount. Proceeds consisted of \$1.2 billion in cash, \$1.0 billion in debt assumption and preferred stock convertible to common stock with a market value of \$660 million.

The unaudited pro forma information below presents results of operations as if the acquisition of ABC in 1996 and the sale of KCAL, the finalization of purchase price allocation and the disposition of certain ABC publishing assets in 1997 had occurred at the beginning of the respective years presented. The unaudited pro forma information is not necessarily indicative of the results of operations of the combined company had these events occurred at the beginning of the years presented, nor is it necessarily indicative of future results.

	Year Ended September 30,	
	1997	1996 <sup>(a)</sup>
Revenues	\$21,613	\$20,075
Net income	1,772	1,274
Earnings per share		
Diluted	\$ 0.86	\$ 0.62
Basic	\$ 0.88	\$ 0.63

<sup>(a)</sup> 1996 includes the impact of a \$300 million non-cash charge related to the initial adoption of a new accounting standard (see Note 11). The charge reduced diluted earnings per share by \$.09 for the year.

## ***NOTE 3. INVESTMENT IN EURO DISNEY***

Euro Disney S.C.A. ("Euro Disney") operates the Disneyland Paris theme park and resort complex on a 4,800-acre site near Paris, France. The company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 1998, the company's recorded investment in Euro Disney was \$340 million. The quoted market value of the company's Euro Disney shares at September 30, 1998 was approximately \$452 million.

In connection with the financial restructuring of Euro Disney in 1994, Euro Disney Associés S.N.C. ("Disney SNC"), a wholly-owned affiliate of the company, entered into a lease arrangement with a noncancelable term of 12 years (the "Lease") related to substantially all of the Disneyland Paris theme park assets, and then entered into a 12-year sublease agreement (the "Sublease") with Euro Disney. Remaining lease rentals at September 30, 1998 of FF 8.3 billion (\$1.5 billion) receivable from Euro Disney under the Sublease approximate the amounts payable by Disney SNC



under the Lease. At the conclusion of the Sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the Lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the Lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the theme park assets, estimated to be \$1.1 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Also as part of the restructuring, the company agreed to arrange for the provision of a 10-year unsecured standby credit facility of approximately \$201 million, upon request, bearing interest at PIBOR. As of September 30, 1998, Euro Disney had not requested that the company establish this facility. The company also agreed, as long as any of the restructured debt is outstanding, to maintain ownership of at least 34% of the outstanding common stock of Euro Disney until June 1999, at least 25% for the subsequent five years and at least 16.67% for an additional term thereafter.

#### NOTE 4. FILM AND TELEVISION COSTS

	1998	1997
<i>Theatrical film costs</i>		
Released, less amortization	\$2,035	\$1,691
In-process	2,041	1,855
	<b>4,076</b>	<b>3,546</b>
<i>Television costs</i>		
Released, less amortization	374	276
In-process	589	279
	<b>963</b>	<b>555</b>
<i>Television broadcast rights</i>	<b>690</b>	<b>300</b>
	<b>5,729</b>	<b>4,401</b>
<i>Less: current portion</i>	<b>3,223</b>	<b>2,186</b>
<i>Non-current portion</i>	<b>\$2,506</b>	<b>\$2,215</b>

Based on management's total gross revenue estimates as of September 30, 1998, approximately 82% of unamortized film and television costs (except in-process) are expected to be amortized during the next three years.

#### NOTE 5. BORROWINGS

The company's borrowings at September 30, 1998 and 1997, including interest rate swaps designated as hedges, are summarized below.

	1998					
	Balance	Stated Interest Rate <sup>(c)</sup>	Interest rate and cross currency swaps <sup>(f)</sup>		Effective Interest Rate <sup>(g)</sup>	Swap Maturities
			Pay Float	Pay Fixed		
Commercial paper due 1999 <sup>(a)</sup>	\$ 2,225	5.5%	\$ —	\$2,225	6.2%	1999
U.S. dollar notes and debentures due 1999–2003 <sup>(b)</sup>	6,321	6.6%	2,886	675	6.4%	1999–2012
Dual currency and foreign notes due 1999–2003 <sup>(c)</sup>	1,678	5.8%	1,678	—	5.4%	1999–2003
Senior participating notes due 2000–2001 <sup>(d)</sup>	1,195	2.7%	—	—	n/a	n/a
Other due 1999–2027	266	5.2%	—	—	n/a	n/a
	<b>11,685</b>	<b>5.8%</b>	<b>—</b>	<b>—</b>	<b>6.2%</b>	
Less current portion	<b>2,132</b>					
Total long-term borrowings	<b>\$ 9,562</b>		<b>\$4,564</b>	<b>\$2,900</b>		

	1997					
	Balance	Stated Interest Rate <sup>(c)</sup>	Interest rate and cross currency swaps <sup>(f)</sup>		Effective Interest Rate <sup>(g)</sup>	Swap Maturities
			Pay Float	Pay Fixed		
Commercial paper due 1998 <sup>(a)</sup>	\$ 2,019	5.8%	\$ —	\$950	6.2%	1999
U.S. dollar notes and debentures due 1998–2003 <sup>(b)</sup>	5,796	6.7%	2,086	—	6.5%	1998–2012
Dual currency and foreign notes due 1998–2001 <sup>(c)</sup>	1,854	5.2%	1,812	—	5.4%	1998–2001
Senior participating notes due 2000–2001 <sup>(d)</sup>	1,145	2.7%	—	—	n/a	n/a
Other due 1998–2027	254	8.2%	—	—	n/a	n/a
	<b>11,068</b>	<b>5.9%</b>	<b>—</b>	<b>—</b>	<b>6.3%</b>	
Less current portion	<b>897</b>					
Total long-term borrowings	<b>\$10,171</b>		<b>\$3,898</b>	<b>\$950</b>		



<sup>(a)</sup>The company has established bank facilities totaling \$5.2 billion which expire in one to four years. Under the bank facilities, the company has the option to borrow at various interest rates. Commercial paper is classified as long-term since the company intends to refinance these borrowings on a long-term basis through continued commercial paper borrowings supported by available bank facilities.

<sup>(b)</sup>Includes \$771 million in 1998 and \$821 million in 1997 representing minority interest in a real estate investment trust established by the company.

<sup>(c)</sup>Denominated principally in U.S. dollars, Japanese yen, Australian dollars and Italian lira.

<sup>(d)</sup>The average coupon rate is 2.7% on \$1.3 billion face value of notes. Additional interest may be paid based on the performance of designated portfolios of films. The effective interest rates at September 30, 1998 and 1997 were 6.8% and 6.3%, respectively.

<sup>(e)</sup>The stated interest rate represents the weighted average coupon rate for each category of borrowings. For floating rate borrowings, interest rates are based upon the rates at September 30, 1998 and 1997; these rates are not necessarily an indication of future interest rates.

<sup>(f)</sup>Amounts represent notional values of interest rate swaps.

<sup>(g)</sup>The effective interest rate reflects the effect of interest rate and cross-currency swaps entered into with respect to certain borrowings as indicated in the "Pay Float" and "Pay Fixed" columns.

Borrowings, excluding commercial paper and minority interest, have the following scheduled maturities:

1999	\$2,123
2000	2,074
2001	2,054
2002	—
2003	92
Thereafter	2,346

The company capitalizes interest on assets constructed for its theme parks, resorts and other property, and on theatrical and television productions in process. In 1998, 1997 and 1996, respectively, total interest costs incurred were \$824 million, \$841 million and \$545 million, of which \$139 million, \$100 million and \$66 million were capitalized.

## NOTE 6. INCOME TAXES

	1998	1997	1996
<i>Income before income taxes</i>			
Domestic (including U.S. exports)	\$3,114	\$3,193	\$1,822
Foreign subsidiaries	43	194	239
	<b>\$3,157</b>	<b>\$3,387</b>	<b>\$2,061</b>
<i>Income tax provision</i>			
Current			
Federal	\$ 698	\$1,023	\$ 389
State	119	203	101
Foreign (including withholding)	139	190	235
	<b>956</b>	<b>1,416</b>	<b>725</b>
Deferred			
Federal	303	21	106
State	48	(16)	16
	<b>351</b>	<b>5</b>	<b>122</b>
	<b>\$1,307</b>	<b>\$1,421</b>	<b>\$ 847</b>

<i>Components of Deferred Tax Assets and Liabilities</i>	1998	1997
<i>Deferred tax assets</i>		
Accrued liabilities	<b>\$(1,051)</b>	\$(1,257)
Other, net	<b>(61)</b>	(89)
Total deferred tax assets	<b>(1,112)</b>	(1,346)
<i>Deferred tax liabilities</i>		
Depreciable, amortizable and other property	<b>2,396</b>	2,413
Licensing revenues	<b>249</b>	193
Leveraged leases	<b>313</b>	279
Investment in Euro Disney	<b>129</b>	90
Total deferred tax liabilities	<b>3,087</b>	2,975
Net deferred tax liability before valuation allowance	<b>1,975</b>	1,629
Valuation allowance	<b>50</b>	50
Net deferred tax liability	<b>\$ 2,025</b>	<b>\$ 1,679</b>

<i>Reconciliation of Effective Income Tax Rate</i>	1998	1997	1996
Federal income tax rate	<b>35.0%</b>	35.0%	35.0%
Nondeductible amortization of intangible assets	<b>4.4</b>	4.4	5.1
State taxes, net of federal income tax benefit	<b>3.4</b>	3.6	3.7
Other, net	<b>(1.4)</b>	(1.0)	(2.7)
	<b>41.4%</b>	<b>42.0%</b>	<b>41.1%</b>

In 1998, 1997 and 1996, income tax benefits attributable to employee stock option transactions of \$327 million, \$81 million and \$44 million, respectively, were allocated to stockholders' equity.

## NOTE 7. PENSION AND OTHER BENEFIT PROGRAMS

The company maintains pension plans and postretirement medical benefit plans covering most of its domestic employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 are not eligible for the postretirement medical benefits. Pension benefits are generally based on years of service and/or compensation. The following chart summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and postretirement medical benefit plans.



	Pension Plans		Postretirement Benefit Plans	
	1998	1997	1998	1997
Reconciliation of funded status of the plans and the amounts included in the company's consolidated balance sheets:				
Projected benefit obligations				
Beginning obligations	<b>\$(1,438)</b>	\$(1,402)	<b>\$(293)</b>	\$(271)
Service cost	<b>(71)</b>	(73)	<b>(11)</b>	(10)
Interest cost	<b>(109)</b>	(106)	<b>(22)</b>	(21)
Actuarial gains (losses)	<b>(247)</b>	9	<b>(2)</b>	5
Benefits paid	<b>63</b>	62	<b>10</b>	9
Other	<b>9</b>	72	<b>(3)</b>	(5)
Ending obligations	<b>(1,793)</b>	(1,438)	<b>(321)</b>	(293)
Fair value of plans' assets				
Beginning fair value	<b>1,726</b>	1,442	<b>162</b>	138
Actual return on plans' assets	<b>294</b>	304	<b>26</b>	22
Employer contributions	<b>75</b>	110	<b>7</b>	—
Participants' contributions	<b>1</b>	1	—	11
Benefits paid	<b>(63)</b>	(62)	<b>(10)</b>	(9)
Expenses	<b>(15)</b>	(9)	—	—
Other	<b>(4)</b>	(60)	—	—
Ending fair value	<b>2,014</b>	1,726	<b>185</b>	162
Funded status of the plans	<b>221</b>	288	<b>(136)</b>	(131)
Unrecognized net gain (loss)	<b>(80)</b>	(219)	<b>(30)</b>	(20)
Unrecognized prior service benefit (cost)	<b>(11)</b>	(2)	<b>1</b>	(34)
Other	<b>33</b>	28	—	—
Net balance sheet asset (liability)	<b>\$ 163</b>	\$ 95	<b>\$(165)</b>	\$(185)

benefit plans. The effects of a one percentage point decrease in the assumed health care cost trend rates on total service and interest cost components and on postretirement benefit obligations are \$9 million and \$70 million, respectively. The effects of a one percentage point increase in the assumed health care cost trend rates on total service and interest cost components and on postretirement benefit obligations are (\$7) million and (\$53) million, respectively.

The company's accumulated pension benefit obligations at September 30, 1998 and 1997 were \$1.6 billion and \$1.3 billion, of which 97.7% and 97.8% were vested, respectively.

The income statement costs of the pension plans for 1998, 1997 and 1996 totaled \$12 million, \$45 million and \$58 million, respectively. The discount rate, rate of return on plan assets and salary increase assumptions for the pension plans were 7.8%, 10.0% and 5.6%, respectively, in 1996. The income statement credits for the postretirement benefit plans for 1998, 1997 and 1996 were \$13 million, \$18 million and \$16 million, respectively. The discount rate, rate of return on plan assets and annual increase in cost of postretirement benefits assumptions were 7.8%, 10.0% and 7.0%, respectively, in 1996.

The market values of the company's shares held by the pension plan master trust as of September 30, 1998 and 1997 were \$71 million and \$75 million, respectively.

## NOTE 8. STOCKHOLDERS' EQUITY

In June 1998, the company effected a three-for-one split of the company's common stock, by means of a special stock dividend. Stockholders' equity has been restated to give retroactive recognition to the stock split in prior periods by reclassifying from retained earnings to common stock the par value of additional shares issued pursuant to the split. In connection with the common stock split, the company amended its corporate charter to increase the company's authorized common stock from 1.2 billion shares to 3.6 billion shares. The Board of Directors also approved an increase in the company's share repurchase authorization to 133.3 million shares of common stock pre-split or 400 million post-split. All share and per share data included herein have been restated to reflect the split.

In 1996, the company established the TWDC Stock Compensation Fund pursuant to the repurchase program to acquire shares of the company for the purpose of funding certain stock-based compensation. Any shares acquired by the fund that are not utilized must be disposed of by December 31, 1999.

The company has a stockholder rights plan, expiring June 30, 1999, which becomes operative upon certain events involving the acquisition of 25% or more of the company's common stock by any person or group in a transaction not approved by the company's Board of Directors. Upon the occurrence of such an event, each right, unless redeemed by the Board, entitles its holder to purchase for \$350 an amount

The projected benefit obligations and accumulated benefit obligations for the pension plans with accumulated benefit obligations in excess of plan assets were \$96 million and \$74 million for 1998, and \$79 million and \$50 million for 1997.

The annual increase in cost of postretirement benefits is assumed to decrease .3 percentage points per year until reaching 4.9%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical



of common stock of the company, or in certain circumstances the acquirer, having a \$700 market value. In connection with the rights plan, 7 million shares of preferred stock were reserved.

### *NOTE 9. STOCK INCENTIVE PLANS*

Under various plans, the company may grant stock options and other awards to key executive, management and creative personnel at exercise prices equal to or exceeding the market price at the date of grant. In general, options become exercisable over a five-year period from the grant date and expire 10 years after the date of grant. In certain cases for senior executives, options become exercisable over periods up to 10 years and expire up to 15 years after date of grant. Shares available for future option grants at September 30, 1998, totaled 119 million.

The following table summarizes information about stock option transactions (shares in millions):

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	183	\$17.44	189	\$15.84	105	\$11.20
Awards canceled	(10)	20.98	(18)	19.32	(6)	17.10
Awards granted	27	33.07	27	25.64	96	19.63
Awards exercised	(37)	9.06	(15)	11.14	(9)	10.53
Awards transferred (ABC)	—	—	—	—	3	11.05
Outstanding at September 30	163	\$21.70	183	\$17.44	189	\$15.84
Exercisable at September 30	51	\$16.34	63	\$11.77	51	\$ 9.40

The following table summarizes information about stock options outstanding at September 30, 1998 (shares in millions):

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$ 2-\$ 5	2	0.28	\$ 5.71	2	\$ 5.71
\$ 5-\$10	7	2.19	8.55	6	8.58
\$10-\$15	20	5.01	13.41	14	13.27
\$15-\$20	24	6.72	18.33	16	18.44
\$20-\$25	60	7.79	21.54	11	21.33
\$25-\$30	26	9.10	26.48	2	26.64
\$30-\$35	9	8.82	31.76	—	—
\$35-\$40	12	9.56	38.02	—	—
\$40-\$45	3	8.01	42.21	—	—
	<u>163</u>			<u>51</u>	

During 1997, the company adopted SFAS 123 and pursuant to its provision elected to continue using the intrinsic-value method of accounting for stock-based awards granted to employees in accordance with APB 25. Accordingly, the company has not recognized compensation expense for its stock-based awards to employees. The following table reflects pro forma net income and earnings per share had the company elected to adopt the fair value approach of SFAS 123:

	1998	1997	1996
Net income:			
As reported	\$1,850	\$1,966	\$1,214
Pro forma	1,749	1,870	1,185
Diluted earnings per share:			
As reported	0.89	0.95	0.65
Pro forma	0.84	0.91	0.64

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

The weighted average fair values of options at their grant date during 1998, 1997 and 1996, where the exercise price equaled the market price on the grant date, were \$10.82 and \$9.09, and \$7.67, respectively. The weighted average fair values of options at their grant date during 1998 and 1996, where the exercise price exceeded the market price on the grant date, were \$8.55 and \$6.20, respectively. No such options were granted during 1997. The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the model were as follows:

	1998	1997	1996
Risk-free interest rate	5.4%	6.4%	6.2%
Expected years until exercise	6.0	6.1	7.1
Expected stock volatility	23%	23%	23%
Dividend yield	.71%	.71%	.69%



*NOTE 10. DETAIL OF CERTAIN  
BALANCE SHEET ACCOUNTS*

	1998	1997
<i>Current Receivables</i>		
Trade, net of allowances	\$ 3,447	\$ 3,002
Other	552	327
	<b>\$ 3,999</b>	<b>\$ 3,329</b>
<i>Accounts and taxes payable and other accrued liabilities</i>		
Accounts payable	\$ 3,792	\$ 3,560
Income taxes payable	—	383
Payroll and employee benefits	853	684
Other	122	121
	<b>\$ 4,767</b>	<b>\$ 4,748</b>
<i>Intangible assets</i>		
Cost in excess of ABC's net assets acquired	\$14,248	\$14,307
Trademark	1,100	1,100
FCC licenses	1,100	1,100
Other	474	211
Accumulated amortization	(1,153)	(707)
	<b>\$15,769</b>	<b>\$16,011</b>

*NOTE 11. SEGMENTS*

<i>Business Segments</i>	1998	1997	1996
<i>Revenues</i>			
Creative Content	\$10,302	\$10,937	\$10,159
Broadcasting	7,142	6,522	4,078
Theme Parks and Resorts	5,532	5,014	4,502
	<b>\$22,976</b>	<b>\$22,473</b>	<b>\$18,739</b>
<i>Operating income</i>			
Creative Content	\$ 1,403	\$ 1,882	\$ 1,561
Broadcasting	1,325	1,294	782
Theme Parks and Resorts	1,287	1,136	990
KCAL gain	—	135	—
Accounting change	—	—	(300)
	<b>\$ 4,015</b>	<b>\$ 4,447</b>	<b>\$ 3,033</b>
<i>Capital expenditures</i>			
Creative Content	\$ 221	\$ 301	\$ 359
Broadcasting	245	152	113
Theme Parks and Resorts	1,693	1,266	1,196
Corporate	155	203	77
	<b>\$ 2,314</b>	<b>\$ 1,922</b>	<b>\$ 1,745</b>
<i>Depreciation expense</i>			
Creative Content	\$ 209	\$ 187	\$ 163
Broadcasting	122	104	104
Theme Parks and Resorts	444	408	358
Corporate	34	39	47
	<b>\$ 809</b>	<b>\$ 738</b>	<b>\$ 672</b>

<i>Business Segments (continued)</i>	1998	1997	1996
<i>Identifiable assets</i>			
Creative Content	\$ 9,509	\$ 8,832	\$ 8,837
Broadcasting	20,099	19,036	19,576
Theme Parks and Resorts	9,214	8,051	7,066
Corporate	2,556	2,578	1,862
	<b>\$41,378</b>	<b>\$38,497</b>	<b>\$37,341</b>
<i>Supplemental revenue data</i>			
Creative Content			
Theatrical product	\$ 5,085	\$5,595	\$5,472
Consumer products	3,452	3,076	2,518
Broadcasting			
Advertising	5,287	4,937	3,092
Theme Parks and Resorts			
Merchandise, food and beverage	1,780	1,754	1,555
Admissions	1,739	1,603	1,493
<i>Geographic Segments</i>			
<i>Revenues</i>			
United States	\$18,106	\$17,868	\$14,422
United States export	1,036	874	746
Europe	2,215	2,073	2,086
Rest of world	1,619	1,658	1,485
	<b>\$22,976</b>	<b>\$22,473</b>	<b>\$18,739</b>
<i>Operating income</i>			
United States	\$ 3,468	\$ 3,712	\$ 2,229
Europe	369	499	633
Rest of world	390	397	382
Unallocated expenses	(212)	(161)	(211)
	<b>\$ 4,015</b>	<b>\$ 4,447</b>	<b>\$ 3,033</b>
<i>Identifiable assets</i>			
United States	\$39,462	\$36,706	\$35,477
Europe	1,468	1,275	1,495
Rest of world	448	516	369
	<b>\$41,378</b>	<b>\$38,497</b>	<b>\$37,341</b>

During the second quarter of 1996, the company implemented SFAS 121. This accounting standard changed the method that companies use to evaluate the carrying value of such assets by, among other things, requiring companies to evaluate assets at the lowest level at which identifiable cash flows can be determined. The implementation of SFAS 121 resulted in the company recognizing a \$300 million non-cash charge related principally to certain assets included in the Theme Parks and Resorts segment.



## NOTE 12. FINANCIAL INSTRUMENTS

**Investments** As of September 30, 1998 and 1997, the company held \$126 million and \$137 million, respectively, of securities classified as available for sale. In 1998, 1997 and 1996, realized gains and losses on available-for-sale securities, determined principally on an average cost basis, and unrealized gains and losses on available-for-sale securities were not material.

**Interest Rate Risk Management** The company is exposed to the impact of interest rate changes. The company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. The company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The company uses interest rate swaps and other instruments to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. Significant interest rate risk management instruments held by the company at September 30, 1998 and 1997 included pay-floating and pay-fixed swaps, interest rate caps and swaption contracts. Pay-floating swaps effectively converted medium-term obligations to LIBOR-based or commercial paper variable rate instruments. These swap agreements expire in one to fourteen years. Pay-fixed swaps and interest rate caps effectively converted floating rate obligations to fixed rate instruments. These instruments expire within one year. Swaption contracts were designated as hedges of floating rate debt and expired in 1998.

The following table reflects incremental changes in the notional or contractual amounts of the company's interest rate contracts during 1998 and 1997. Activity representing renewal of existing positions is excluded.

	September 30, 1997	Additions	Maturities/ Expirations	Terminations	September 30, 1998
Pay-floating swaps	\$2,086	\$ 950	\$ (50)	\$(100)	<b>\$2,886</b>
Pay-fixed swaps	950	6,000	(4,050)	—	<b>2,900</b>
Interest rate caps	—	3,100	(2,000)	—	<b>1,100</b>
Swaption contracts	300	—	(300)	—	<b>—</b>
	<b>\$3,336</b>	<b>\$10,050</b>	<b>\$(6,400)</b>	<b>\$(100)</b>	<b>\$6,886</b>

	September 30, 1996	Additions	Maturities/ Expirations	Terminations	September 30, 1997
Pay-floating swaps	\$1,520	\$2,479	\$ —	\$(1,913)	\$2,086
Pay-fixed swaps	900	850	(200)	(600)	950
Swaption contracts	—	1,100	—	(800)	300
Option contracts	—	593	—	(593)	—
Spreadlock contracts	—	470	(470)	—	—
	<b>\$2,420</b>	<b>\$5,492</b>	<b>\$(670)</b>	<b>\$(3,906)</b>	<b>\$3,336</b>

The impact of interest rate risk management activities on income in 1998, 1997 and 1996, and the amount of deferred gains and losses from interest rate risk management transactions at September 30, 1998 and 1997 were not material.

**Foreign Exchange Risk Management** The company transacts business in virtually every part of the world and is subject to risks associated with changing foreign exchange rates. The company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, the company enters into various contracts which change in value as foreign exchange rates change to protect the value of its exiting foreign currency assets and liabilities, commitments and anticipated foreign currency revenues. By policy, the company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for periods not to exceed five years. The gains and losses on these contracts offset changes in the value of the related exposures.

It is the company's policy to enter into foreign currency transactions only to the extent considered necessary to meet its objectives as stated above. The company does not enter into foreign currency transactions for speculative purposes.

The company uses option strategies which provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal currencies hedged are the Japanese yen, French franc, German mark, British pound, Canadian dollar and Italian lira. The company also uses forward contracts to hedge foreign currency assets, liabilities and foreign currency payments the company is committed to make in connection with the construction of a cruise ship (see Note 13). Cross-currency swaps are used to hedge foreign currency-denominated borrowings.

At September 30, 1998 and 1997, the notional amounts of the company's foreign exchange risk management contracts, net of notional amounts of contracts with counterparties against which the company has a legal right of offset, the related exposures hedged and the contract maturities are as follows:

	Notional Amount	Exposures Hedged	Fiscal Year Maturity
<b>1998</b>			
Option contracts	<b>\$2,966</b>	<b>\$1,061</b>	<b>1999–2000</b>
Forward contracts	<b>2,053</b>	<b>1,773</b>	<b>1999–2000</b>
Cross-currency swaps	<b>1,678</b>	<b>1,678</b>	<b>1999–2003</b>
	<b>\$6,697</b>	<b>\$4,512</b>	
<b>1997</b>			
Option contracts	\$3,460	\$1,633	1998–1999
Forward contracts	2,284	1,725	1998–1999
Cross-currency swaps	1,812	1,812	1998–2001
	<b>\$7,556</b>	<b>\$5,170</b>	



Gains and losses on contracts hedging anticipated foreign currency revenues and foreign currency commitments are deferred until such revenues are recognized or such commitments are met, and offset changes in the value of the foreign currency revenues and commitments. At September 30, 1998 and 1997, the company had deferred gains of \$245 million and \$486 million respectively, and deferred losses of \$118 million and \$220 million, respectively, related to foreign currency hedge transactions. Deferred amounts to be recognized can change with market conditions and will be substantially offset by changes in the value of the related hedged transactions. The impact of foreign exchange risk management activities on operating income in 1998 and in 1997 was a net gain of \$227 million and \$166 million, respectively.

**Fair Value of Financial Instruments** At September 30, 1998 and 1997, the company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate and foreign exchange risk management contracts.

At September 30, 1998 and 1997, the fair values of cash and cash equivalents, receivables, accounts payable and commercial paper approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$ 686	\$ 765	\$ 769	\$ 1,174
Borrowings	\$(10,914)	\$(11,271)	\$(10,313)	\$(10,290)
Risk management contracts:				
Foreign exchange forwards	\$ 49	\$ 18	\$ 43	\$ 93
Foreign exchange options	58	178	177	367
Interest rate swaps	30	181	20	54
Cross-currency swaps	25	(89)	17	(77)
	<b>\$ 162</b>	<b>\$ 288</b>	<b>\$ 257</b>	<b>\$ 437</b>

**Credit Concentrations** The company continually monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties. The company would not realize a material loss as of September 30, 1998 in the event of nonperformance by any one counterparty. The company enters into transactions only with financial institution counterparties which have a credit rating of A- or better. The company's current policy regarding agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the company limits the amount of credit exposure with any one institution. At September 30, 1998, financial institution counterparties posted collateral of \$83 million to the company, and the company was not required to collateralize its financial instrument obligations.

The company's trade receivables and investments do not represent significant concentration of credit risk at September 30, 1998, due to the wide variety of customers and markets into which the company's products are sold, their dispersion across many geographic areas, and the diversification of the company's portfolio among instruments and issuers.

**New Accounting Guidance** In June 1998, the Financial Accounting Standards Board ("the FASB") issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), which the company is required to adopt effective October 1, 1999. SFAS 133 will require the company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other stockholders' equity until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. The impact of SFAS 133 on the company's financial statements will depend on a variety of factors, including future interpretative guidance from the FASB, the future level of forecasted and actual foreign currency transactions, the extent of the company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. However, the company does not believe the effect of adopting SFAS 133 will be material to its financial position.



### *NOTE 13. COMMITMENTS AND CONTINGENCIES*

Pursuant to an agreement with a shipyard for the construction of a cruise ship for its Disney Cruise Line, the company is committed to make payments totaling approximately \$290 million in 1999.

The company is committed to the purchase of broadcast rights for various feature films, sports and other programming aggregating approximately \$14.7 billion as of September 30, 1998. This amount is substantially payable over the next six years.

The company has various real estate operating leases including retail outlets for the distribution of consumer products and office space for general and administrative purposes. Future minimum lease payments under these non-cancelable operating leases totaled \$2 billion at September 30, 1998, payable as follows:

1999	\$272
2000	259
2001	236
2002	214
2003	183
Thereafter	819

Rental expense for the above operating leases during 1998, 1997 and 1996, including overages, common-area maintenance and other contingent rentals, was \$321 million, \$327 million and \$233 million, respectively.

The company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the company to suffer any material liability by reason of such actions, nor does it expect that such actions will have a material effect on the company's liquidity or operating results.

### *NOTE 14. SUBSEQUENT EVENT*

In April 1997, the company purchased a significant equity stake in Starwave Corporation ("Starwave"), an internet technology company. In connection with the acquisition, the company was granted an option to purchase substantially all the remaining shares of Starwave, which the company exercised during the third quarter of 1998. Accordingly, the accounts of Starwave have been included in the company's September 30, 1998 consolidated financial statements. On June 18, 1998, the company reached an agreement for the acquisition of Starwave by Infoseek Corporation ("Infoseek"), a publicly-held internet search company, pursuant to a merger. On November 18, 1998, the shareholders of both Infoseek and Starwave approved the merger. As a result of the merger and the company's purchase of additional shares of Infoseek common stock pursuant to the merger agreement, the company owns approximately 43% of Infoseek's outstanding common stock. In addition, pursuant to the merger agreement, the company purchased warrants enabling it, under certain circumstances, to achieve a majority stake in Infoseek. These warrants vest over a three-year period and expire in five years. Effective as of the November 18, 1998 closing date of the transaction, the company will record a significant non-cash gain, a write-off for purchased in-process research and development costs and an increase in investments, reflecting the company's share of the fair value of Infoseek's intangible assets. The company is currently performing the necessary valuations to determine the gain, the research and development write-off and the amount of and amortization period for the intangible assets. Thereafter, the company will account for its investment in Infoseek under the equity method. The merger is not expected to have a material effect on the company's financial position.



## QUARTERLY FINANCIAL SUMMARY

(In millions, except per share data) (Unaudited)	December 31	March 31	June 30	September 30
<b>1998</b>				
Revenues	\$ 6,339	\$ 5,242	\$ 5,248	\$ 6,147
Operating income	1,492	849	923	751
Net income	755	384	415	296
Earnings per share <sup>(1)</sup>				
Diluted	0.37	0.18	0.20	0.14
Basic	0.37	0.19	0.20	0.14
Dividends per share	0.04	0.05	0.05	0.05
Market price per share				
High	33	38 <sup>19</sup> / <sub>64</sub>	42 <sup>3</sup> / <sub>8</sub>	39 <sup>7</sup> / <sub>8</sub>
Low	25 <sup>59</sup> / <sub>64</sub>	31 <sup>31</sup> / <sub>64</sub>	35 <sup>1</sup> / <sub>64</sub>	24 <sup>7</sup> / <sub>16</sub>
<b>1997</b>				
Revenues	\$ 6,278	\$ 5,481	\$ 5,194	\$ 5,520
Operating income	1,562	864	1,060	961
Net income	749	333	473	411
Earnings per share <sup>(1)</sup>				
Diluted	0.36	0.16	0.23	0.20
Basic	0.37	0.16	0.23	0.20
Dividends per share	0.04	0.04	0.04	0.04
Market price per share				
High	25 <sup>21</sup> / <sub>64</sub>	26 <sup>3</sup> / <sub>64</sub>	28 <sup>11</sup> / <sub>64</sub>	26 <sup>63</sup> / <sub>64</sub>
Low	20 <sup>83</sup> / <sub>64</sub>	22 <sup>29</sup> / <sub>64</sub>	23 <sup>45</sup> / <sub>64</sub>	25 <sup>1</sup> / <sub>16</sub>

<sup>(1)</sup>Amounts have been adjusted to give effect to the three-for-one split of the company's common shares effective June 1998.  
See Note 8 to the Consolidated Financial Statements.



(In millions, except per share data)

	1998	1997	1996	1995	1994
<i>Statements of income</i>					
Revenues	<b>\$22,976</b>	\$22,473	\$ 18,739	\$12,151	\$10,090
Operating income	<b>4,015</b>	4,447	3,033	2,466	1,972
Net income	<b>1,850</b>	1,966	1,214	1,380	1,110
<i>Per share</i>					
Earnings					
Diluted	<b>\$ 0.89</b>	\$ 0.95	\$ 0.65	\$ 0.87	\$ 0.68
Basic	<b>0.91</b>	0.97	0.66	0.88	0.69
Dividends	<b>0.20</b>	0.17	0.14	0.12	0.10
<i>Balance sheets</i>					
Total assets	<b>\$41,378</b>	\$38,497	\$ 37,341	\$14,995	\$13,110
Borrowings	<b>11,685</b>	11,068	12,342	2,984	2,937
Stockholders' equity	<b>19,388</b>	17,285	16,086	6,651	5,508
<i>Statements of cash flows</i>					
Cash provided by operations	<b>\$ 5,115</b>	\$ 5,099	\$ 3,707	\$ 3,510	\$ 2,808
Investing activities	<b>(5,665)</b>	(3,936)	(12,546)	(2,288)	(2,887)
Financing activities	<b>360</b>	(1,124)	8,040	(332)	(97)
<i>Other</i>					
Stockholders at year end	<b>658,000</b>	588,000	564,000	508,000	459,000
Employees at year end	<b>117,000</b>	108,000	100,000	71,000	65,000



## *MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS*

Management is responsible for the preparation of the company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants audit the company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the company has an Audit Review Committee composed of seven non-management Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

## *REPORT OF INDEPENDENT ACCOUNTANTS*

To the Board of Directors and Stockholders of  
The Walt Disney Company

In our opinion, the consolidated balance sheets (page 60) and the related consolidated statements of income (page 59), of cash flows (page 61) and of stockholders' equity (page 62) present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the "company") at September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*PricewaterhouseCoopers LLP*

Los Angeles, California  
November 19, 1998

## *SUPPLEMENTAL INFORMATION*

### **STOCK EXCHANGES**

The Common Stock of the company is listed for trading on the New York (principal market) and Pacific Stock Exchanges. Certain debt securities of the company are listed on the Luxembourg and Swiss Stock Exchanges.

### **REGISTRAR AND STOCK TRANSFER AGENT**

The Walt Disney Company  
611 N. Brand Boulevard, Suite 6100  
Glendale, California 91203  
(818) 553-7200

### **INDEPENDENT ACCOUNTANTS**

PricewaterhouseCoopers LLP, Los Angeles

### **OTHER INFORMATION**

A copy of the company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request.

A copy of the company's quarterly reports will be furnished without charge to any stockholder upon written or telephone request.

All written requests should be sent to Shareholder Services, The Walt Disney Company, 500 South Buena Vista Street, Burbank, California 91521-9722. Telephone requests can be made to (818) 553-7200.



## BOARD OF DIRECTORS

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*Reveta F. Bowers*<sup>1,2,4,5</sup>  
Head of School  
Center for Early Education

*Roy E. Disney*<sup>3</sup>  
Vice Chairman  
The Walt Disney Company

*Michael D. Eisner*<sup>3</sup>  
Chairman and Chief Executive Officer  
The Walt Disney Company

*Judith Estrin*<sup>1</sup>  
Chief Technology Officer and  
Senior Vice President  
Cisco Systems, Inc.

*Stanley P. Gold*<sup>2,4,5</sup>  
President and Chief Executive Officer  
Shamrock Holdings, Inc.

*Sanford M. Litvack*  
Senior Executive Vice President and  
Chief of Corporate Operations  
The Walt Disney Company

*Ignacio E. Lozano, Jr.*<sup>1,2,4</sup>  
Chairman  
Lozano Communications

*George J. Mitchell*<sup>1,5</sup>  
Special Counsel  
Verner, Liipfert, Bernard, McPherson and Hand

*Thomas S. Murphy*<sup>2,3</sup>  
Former Chairman  
Capital Cities/ABC, Inc.

*Richard A. Nunis*  
Chairman  
Walt Disney Attractions

*Leo J. O'Donovan, S.J.*<sup>1</sup>  
President  
Georgetown University

*Sidney Poitier*<sup>2,4</sup>  
Chief Executive Officer  
Verdon-Cedric Productions, Ltd.

*Irwin E. Russell*<sup>3</sup>  
Attorney at Law

*Robert A.M. Stern*  
Senior Partner  
Robert A.M. Stern Architects

*Andrea L. Van de Kamp*<sup>5</sup>  
Chairman, Sotheby's West Coast

*E. Cardon Walker*<sup>1</sup>  
Former Chairman and Chief Executive Officer  
The Walt Disney Company

*Raymond L. Watson*<sup>1,2,3</sup>  
Vice Chairman  
The Irvine Company

*Gary L. Wilson*<sup>5</sup>  
Chairman  
Northwest Airlines Corporation

<sup>1</sup>Member of Audit Review Committee

<sup>2</sup>Member of Compensation Committee

<sup>3</sup>Member of Executive Committee

<sup>4</sup>Member of Executive Performance  
Subcommittee of the Compensation  
Committee

<sup>5</sup>Member of Nominating Committee

## DIRECTORS EMERITUS

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*Caroline Leonetti Ahmanson*  
Chairman Emeritus  
Federal Reserve Bank of San Francisco

*Joseph F. Cullman 3rd*  
Chairman Emeritus  
Philip Morris Companies, Inc.

## CORPORATE EXECUTIVE OFFICERS

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*Michael D. Eisner*  
Chairman of the Board and Chief Executive Officer

*Louis M. Meisinger*  
Executive Vice President and General Counsel

*Roy E. Disney*  
Vice Chairman of the Board

*Peter E. Murphy*  
Executive Vice President and Chief Strategic Officer

*Sanford M. Litvack*  
Senior Executive Vice President and  
Chief of Corporate Operations

*Preston Padden*  
Executive Vice President-Government Relations

*John F. Cooke*  
Executive Vice President-Corporate Affairs

*Thomas O. Staggs*  
Executive Vice President and Chief Financial Officer

*John J. Feenie*  
Executive Vice President-China Affairs

## PRINCIPAL BUSINESSES WITH CHIEF EXECUTIVES

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*ABC, Inc.*  
Robert A. Iger, President

*Walt Disney Studios*  
Joseph E. Roth, Chairman, The Walt Disney Studios  
Richard W. Cook, Chairman, Walt Disney  
Motion Pictures Group

*Disney Consumer Products*  
Barton K. Boyd, Chairman  
Anne E. Osberg, President

*Walt Disney Feature Animation*  
Roy E. Disney, Chairman  
Peter Schneider, President

*Walt Disney Imagineering*  
Martin A. Sklar, Vice Chairman and  
Principal Creative Executive  
Kenneth P. Wong, President

*Walt Disney Attractions*  
Richard A. Nunis, Chairman  
Judson C. Green, President

*Disneyland Paris*  
Gilles Pelisson, Chairman and  
Chief Executive Officer

*Buena Vista Internet Group*  
Jacob J. Winebaum, Chairman



